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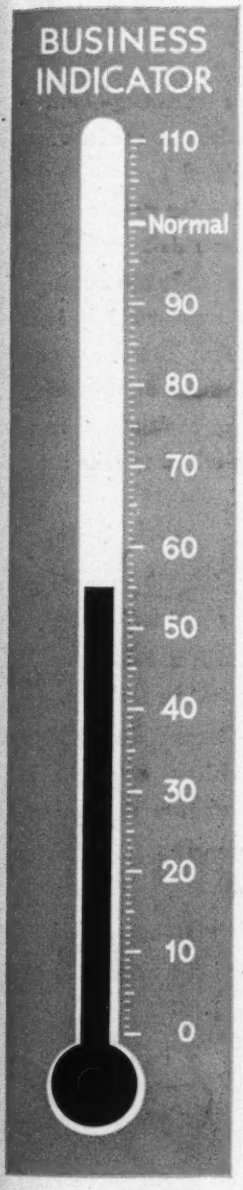
THE BUSINESS WEEK



The general level of business activity, after allowance for the usual seasonal influences, has shown almost no net change since the beginning of July. . . . Although, except for a few lines of consumer goods affected by special factors, there are still no significant statistical indications of expansion, the stability of the midsummer business level is distinctly encouraging when considered in connection with the rise of commodity prices and the steady improvement in the bond market since the middle of July. . . . The panic phase of the depression has definitely passed, and the upswing in stock prices has offset the extreme deflationary effect of the acute currency crisis which marked the spring months. . . . Further improvement now plainly depends upon evidences of fall business expansion, which should begin to appear by the end of August. This in turn depends upon the prompt response of private business and banking initiative to the positive aspects of the Administration's program, now being put in process through the national coordination of local banking and industrial committees. . . . More active credit expansion to support revival of investment markets, replenishment of depleted stocks of raw materials and manufactured products, rehabilitation and modernization of plant facilities, resumption of public and private construction projects, re-employment of labor and restoration of consumer purchasing power are urgently needed to push forward and make effective the forces favorable to business recovery set in motion by the fundamental foreign and domestic financial factors which have developed during the past few months.

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THE LITERARY DIGEST

SOUNDING-BOARD OF AMERICAN OPINION

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This Business Week:

Reconstruction

Recent public and private explanations of the President's plans reveal the full scope of the Administration's recovery program. In this issue are summarized for better perspective the events leading down the depression valley, and the definite, consistent, and careful steps which have been and will be taken on the way out. *(p. 3)*

Skeptics fail to realize two things: the orderly progress and comprehensive nature of this program; and the fundamental changes in the underlying financial situation which make business improvement possible at this time. *(Editorial, p. 32)*

Organization of the Home Loan Banks is an example of the speed with which Washington is moving. Many cities want them; some are ready to raise their own capital. *(p. 13)*

Clothing

White suits are no longer limited to Southern planters and Washington officeholders. Northern cities saw a great increase in light clothes this summer, due to a growing appreciation of hot weather comfort and the very low prices. Clothing makers are planning greater promotion of the idea next year, wondering about the effect on regular lines this fall. *(p. 7)*

Cotton garments generally are better than they used to be; shrinking in the laundry is becoming a thing of the past and garments not processed to prevent it will soon be unsaleable. *(p. 6)*

New Products

Many old companies are working out new products to sell in new markets. Grinnell, maker of heavy-duty sprinkler systems, has devised a low-priced system for home protection which opens a big field. *(p. 10)* Westinghouse is going into air-conditioning for railroad trains and homes. *(p. 9)* General Electric continues its drive for the home market with a humidifier. *(p. 10)* United Chromium offers a unit which enables machine shops to plate their own tools at great savings. *(p. 10)* In textiles, there are a new table linen of durene, and a short-staple rayon for use on cotton looms. *(p. 10)* And the non-run hosiery is in production. *(p. 9)*

Marketing

The American Consumer Market has shown in preceding weeks how the American consumers have spent their money. Part 18 of this study by *The Business Week* shows expenditures by income groups, reveals the great merchandising importance of the low-income buyers. *(p. 12)*

Gas range makers will go on with their plans for a 3-year sales drive. New models and a sizeable advertising appropriation will be used to consolidate present positions on the kitchen front and push replacements. *(p. 9)*

Iodine

For many years, Chile has controlled the iodine market, producing 700 tons of the world's 1,000-ton output. American oil wells now turn out, as a by-product, 300 tons a year; can make enough to supply all we need. Chile's too-profitable monopoly has broken—and so has the price. *(p. 16)*

Figures

Business activity does not yet reflect business "sentiment," does not support rising securities and commodity prices. With motor makers closed down for inventory, vacations, or plain lack of sales, steel is almost without immediate consumers. Railroads still hesitate to spend borrowed money for repairs and equipment, but many will eventually follow the Pennsylvania's lead. Power and carloading declined. July department store sales and life insurance sales reflect shrinking purchasing power. *(p. 28)*

Modernization

Growth of investment in plant equipment of American industry, 1919-1929, certainly was not excessive, increased, in fact, more slowly than production. The conclusion is inescapable that here is a field in which federal stimulation could effectively speed business recovery. *(p. 14)*

Foreign

Ottawa accomplishments, as was expected, cannot be measured immediately. Neither a great success nor a colossal failure, the conference did not do what it was supposed to about tariffs and monetary matters; it did show the difficulties of doing business just within the family, and the necessities of individual trade. American business is more concerned about branch plant operation than any direct loss of trade. *(p. 20)*

Explosion of the Soviet bond story did no damage one way or the other, but it did arouse fresh interest in the market for our goods. *(p. 24)*

Brazil's coffee-pot revolution makes the coffee situation cloudy. Shipments are held up; news is censored. But what with Farm Board's supply and lessened consumption, a coffee famine is very unlikely. *(p. 8)*

Figures

Sentiment abroad continues good, according to the cables. The British war loan conversion was a big success. In Germany, business is calm about the political situation, being used to it, perhaps. In the Far East, and in Brazil, political trouble creates uncertainty. Generally, financial recovery continues without industrial support. *(Survey, p. 25)*

In this issue:

"Who Spends," Part 18 of The American Consumer Market

Gold from the Scrap Pile

THE Warren Lamb Lumber Company of Rapid City, South Dakota, checked its fuel consumption and found that every day $60.00 worth of salable scrap lumber was being burned to supply steam for its main line-shaft drives. At a cost of $10,000, unit motor drives were installed and power was purchased from the local utility. The result: annual savings of $9,000.

Ninety per cent annual return on the investment; more logs sawed in the same time; fewer delays; and the new equipment paid for in fourteen months—that's what modernization has done for this progressive lumber mill. In one form or another, the benefits of modernization are evident in every industry.

Do you give thoughtful hearings to modernization plans? The right kind of modernization pays for itself.

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GENERAL ELECTRIC

THE BUSINESS WEEK

The Journal of Business News and Interpretation

News of the week ending August 20, 1932

Full Scope of Hoover Plan For Recovery Now Is Revealed

Comprehensive program is past the stage of emergency rescue and now is in constructive phase

THROUGH the President's acceptance speech and his private explanation to important industrial interests whose aid he is enlisting, it has been made clear that the Administration has been and is now pursuing a definite, consistent, systematic, and comprehensive program to promote business recovery. Further development and clarification of this program is the purpose of the conference of the banking and industrial committees of the Reserve Districts and federal officials called for Aug. 26.

The essential objective of the program has been to stimulate and support private enterprise by maintaining or creating conditions necessary to encourage it. The strategy of the campaign has necessarily shifted with the forces and circumstances that have come into the picture since the depression started. But, seen in retrospect, the successive steps have constituted a consistent scheme of action which can now be interpreted somewhat as follows:

First Emergency Job Was to Check Panic

(1) The immediate problem, following the stock market collapse in the fall of 1929, was to prevent financial panic, stabilize public sentiment, and avert too drastic decline of commodity prices, curtailment of employment and consumer purchasing power, and contraction of business activity. This was attempted by direct methods involving the following lines of action:

(*a*) With assistance of the Reserve banks, through large open-market purchases of government securities, the member banks were enabled successfully to take over the private foreign and domestic call loans on securities. In this way, and through direct liquidation of securities, an enormous volume of corporation reserve and individual investment funds was released.

(*b*) Leading corporations, especially in the railroad and utility fields, were urged in conference with the President to use these reserves, and to employ released individual investment funds through new security issues, to carry on their maintenance and expansion programs, helping to maintain employment in the capital goods and other industries.

(*c*) Investment funds, then apparently abundant, were drawn upon by large public borrowing to advance public works as a means of maintaining employment, and also to check the decline in commodity prices through Farm Board stabilization operations.

(*d*) Maintenance of wage scales was urged by the President in conferences with industrial leaders.

These efforts were successful in checking the decline and producing a rising trend of business activity from the beginning to the middle of 1930. The general level of business volume returned nearly to normal by July, but beneath the surface a persistent process of credit contraction, particularly in commercial and security loans, and a competitive scramble for gold, had set in on an international scale during the summer, resulting in a steady and rapid decline of security and commodity prices.

International Panic Set In

The deflationary effect of this process was accelerated in a vicious spiral up to the summer of 1931, when the international panic phase of the depression set in. Large-scale liquidation of foreign loans and credits, recall of capital, and increasing difficulty of making foreign payments as international trade and commodity prices declined brought on a series of debt defaults and political

Steps in the Administration Program

1. *Post-Stock-Market-Collapse Phase, November, 1929 – June, 1930*
   - *a.* Reserve Credit expansion to protect call loans and release private investment funds
   - *b.* Continuance of construction and maintenance programs by railroads and utilities
   - *c.* Public construction and Farm Board support of commodity prices
   - *d.* Maintenance of wages
2. *International-Financial-Panic Phase, June, 1930 – June, 1932*
   - *a.* War debts and reparations moratorium
   - *b.* Federal Reserve Credits to Bank of England and Reichsbank
   - *c.* National Credit Corporation } to support banking structure
   - *d.* Reconstruction Finance Corporation }
   - *e.* Glass-Steagall Act } to offset foreign attacks
   - *f.* New revenue measure and budget balancing } on the dollar
3. *Credit-Expansion-and-Reconstruction Phase, March, 1932–*
   - *a.* Open-market Federal Reserve operations
   - *b.* The bond pool
   - *c.* Emergency Relief and Construction and Home Loan Bank Acts
   - *d.* Organization and national coordination of banking and industrial committees in Reserve Districts
   - *e.* Support of commodity prices by pool financing of private purchases
   - *f.* Stimulation of employment in capital goods industries
   - *g.* War debt revision for foreign trade expansion
   - *h.* Revision of anti-trust laws

International News

HOME RELIEF—*Here is the board of the new Home Loan Bank at its first meeting. Left to right are Morton Bodfish, Nathan Adams, Franklin W. Fort (chairman), Dr. John M. Gries, and William E. Best*

disturbances in foreign countries, culminating in the collapse of the Credit-Anstalt bank in Austria, the financial breakdown of Germany, the flight of foreign funds from London and finally the abandonment of the gold standard by Britain, from the beginning of June to the end of September, 1931.

When Europe Cracked, Banks Needed Buttress

(2) The problem precipitated by these developments was primarily one of protecting the domestic banking structure, which must serve as the basis for any business recovery, from the far-reaching effects of the international financial panic resulting from these events. The successive steps taken were:

(*a*) The President's proposal, made at the beginning of June, of a moratorium on reparations and war-debt payments. This removed an enormous financial strain from Europe and helped to lift the deflationary pressure of impossible international payments from the world-commodity and security markets. In spite of this relief, so large a volume of foreign credits was frozen in central Europe, especially British loans, that confidence in the stability of the pound was disturbed and the flight of capital from London forced England off gold.

Emergency Credits Futile

(*b*) Efforts were made to avoid this through Federal Reserve credits extended to the Bank of England, and to the Reichsbank, but they were unsuccessful in stemming the panic. The collapse of sterling was a terrific shock to financial confidence the world over and speeded contraction of bank credit, liquidation of security loans, and decline of security prices. Domestic confidence was so disturbed that currency hoarding started on a large scale, causing a rapid increase in bank failures, paralyzing the credit structure, and bringing the capital markets to a complete standstill.

(*c*) Private cooperation of the stronger banks was enlisted to support the weaker banks by pooling resources through establishment of the National Credit Corporation on initiative of the President. This device proved neither strong enough nor prompt enough in operation to check bank closings and stop hoarding. Moreover the decline in railroad traffic and security values so undermined the credit position of the railroads as to menace not only the security of the commercial banks but of insurance companies, savings banks, and other financial institutions which were large investors in railroad securities. It became necessary to broaden the support of the financial structure and to employ public as well as private credit agencies for the purpose.

(*d*) The Reconstruction Finance Corporation was established to prevent bank suspensions, railroad receiverships, strengthen insurance and mortgage bond companies and savings banks by loans from public funds. The essential purpose of this use of the public credit was to restore confidence of depositors, check hoarding of currency, prevent further depression of security and commodity prices by averting distress liquidation of loans and investments of banks and other financial institutions To assist further in meeting the special credit difficulties of the railroads, the I.C.C. consented to rate increases, the Railroad Credit Corporation was set up by private cooperation of the roads, at the suggestion of the President, to pool the proceeds of the rate increase to protect the weaker roads, and a wage reduction was made by private negotiations with the brotherhoods.

These measures were fairly successful so far as strengthening the confidence of domestic bank depositors and investors was concerned. With slight additional assistance through an anti-hoarding campaign organized by the Administration, and a special issue of baby bonds, the rate of bank suspensions and the increase in currency in circulation were checked by the end of February.

The Dollar Under Suspicion

But then the further influence of foreign factors began to be felt in full force. The large increase in government borrowing implied in these measures for use of public credit to support the banking structure, the seriously unbalanced condition of the federal budget, the agitation for further large public expenditures for employment relief, public construction, or bonus payments, the difficulties of framing an effective revenue measure, and the discussion of suggestions for direct or indirect currency inflation in Congress all combined to create foreign fears for the stability of the dollar and the maintenance of the gold standard in this country.

Foreign banks began to withdraw their gold balances on a large scale, a flight of American and foreign capital from the U. S. and an active speculation against the dollar set in early in the year, when domestic hoarding was still conspicuous.

(*e*) To meet this additional danger the Glass-Steagall Act was passed, pro-

tecting our banking system against the deflationary effects of foreign gold withdrawals and domestic hoarding by permitting the use of government bonds instead of commercial paper as a backing for currency and extending, in emergency, the powers of the Reserve banks to come to the assistance of member banks by rediscounting paper therefore ineligible.

Gold Released

Effect of this was to release an enormous amount of gold for export without compelling further contraction of credit and liquidation of loans and investments by member banks. The danger of any departure from the gold standard was definitely removed, foreign gold demands were freely met, foreign confidence in the stability of the dollar was reestablished and the speculative short selling against it ceased.

(*f*) Passage of a drastic revenue measure and some curtailment of federal expenditures under determined Administration pressure which pledged a provisionally balanced budget was the final step in this process of repelling the attack on the dollar and preventing collapse of confidence in the currency which were undermining the banking and credit structure of the country. Insistence of the Administration upon balancing the budget and opposition to a large program of public borrowing for any purpose which would not provide a self-sustaining basis for the expenditure were indispensable parts of this campaign to protect the credit structure.

The significance of this strategy was not as fully understood at the time as it is now, but it has been completely successful in its purpose. The final international panic phase of the depression due to fear of the soundness of the dollar definitely passed. Confidence of foreign investors in American securities and the safety of our banking system and the stability of our currency was reestablished; gold began to flow back to this country in the middle of June, and the bond market rose steadily under the initial influence of foreign buying.

These favorable developments are the fundamental factor in the reversal of business and financial sentiment which has taken place in the past month. They were fortunately further supported by the write-off of reparations at the Lausanne Conference in the middle of July and the successful British war-loan conversion operation, both of which lifted more of the deflationary pressure from world money and commodity markets.

Now Come the Positive Steps Toward Recovery

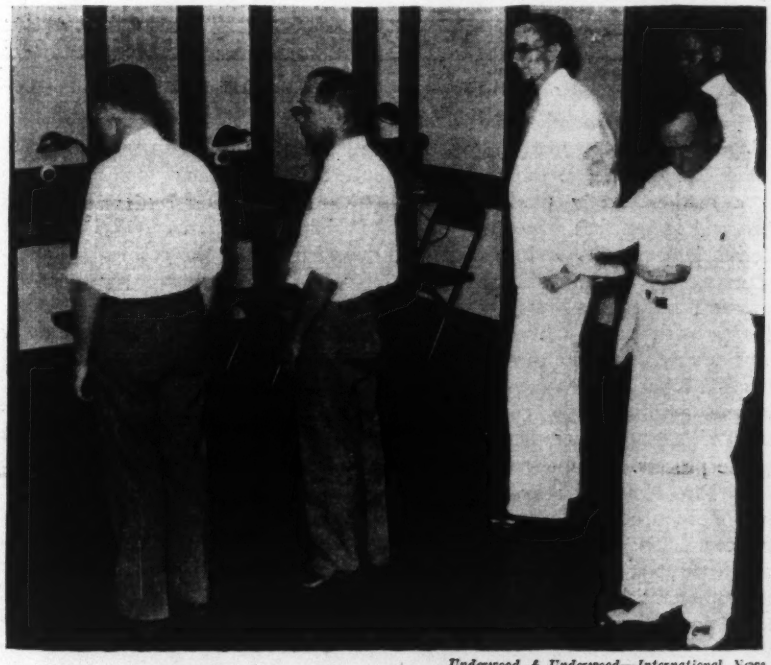
(3) When the protective weapons against a currency panic had been provided by the preceding steps in its program, the Administration first found it possible to pass on to more positive steps to promote credit expansion and stimulate business enterprise.

(*a*) The large-scale open-market purchases of government securities by the Reserve banks, beginning at the outset of March, had the purpose of offsetting foreign gold withdrawals and building up the reserves of member banks to the point where the banks might be prompted to expand their own loans and investments. The reflationary effect of these operations was partly offset by the outflow of gold up to the beginning of June, and financial confidence was still disturbed by the continuing Congressional session. No definite expansion of member bank credit resulted, but the decline was checked in the larger city banks, stock prices reached their bottom June 1 and remained stabilized at that level during the next month and a half, while commodity prices rose slowly and steadily thereafter. To speed the process more direct methods were used.

Bond Pool Formed

(*b*) The American Securities Investing Corporation, or bond pool, was formed at the instance of the Administration to support the bond market, and the recovery in bond prices which has continued rapidly with few interruptions since it started on June 1. This support stimulated foreign investment interest which has maintained the upward movement since and tended to stimulate new issues for capital purposes.

(*c*) The Emergency Relief and Construction Act, framed along lines largely determined by the Administration, together with the Home Loan Bank Act, include among purely protective provisions for unemployment relief and prevention of distress liquidation of real estate and farm products, the first positive measures taken by Congress to stimulate industrial activity and employment. The public credit is to be put back of



Underwood & Underwood—International News

CROP RACE—*Not an Olympic event, but crop reporters lined up in the Department of Agriculture, Washington, waiting for release of the vital figures on wheat, cotton, and corn. Great secrecy surrounds the gathering of these figures; elaborate precautions are taken to prevent leaks*

residential and other self-liquidating construction work, some public construction, and the repair and improvement of railroad equipment, which can be put in process quickly.

Action Being Pressed

Since the passage of these measures, active steps have been taken by the Administration to speed their application in order to expand employment. In addition, the Relief Act provides means for stimulating the member banks to more active credit expansion policy by permitting the Reserve Banks to make loans directly to individuals and business concerns for current commercial purposes if the member banks refuse such loans without sufficient reason.

(*d*) Committees of bankers and industrials were established in all important Reserve districts to cooperate with the Reserve Banks in investigating the possible avenues of credit expansion, serve as a clearing house for proposals by which member bank and R.F.C. credit resources could be more effectively put to work, and to put pressure upon the banks to apply more liberal lending policies. Out of this has grown the campaign for extending use of trade acceptances, and other concrete projects for improving local credit conditions.

These committees are being coordinated on a national scale to cooperate with the Administration, the Treasury, the R.F.C. and the Department of Commerce in promoting plans for stimulation of business and support of commodity prices. Henry L. Robinson, Los Angeles banker and personal friend of the President, is to serve as his lieutenant in organizing this unofficial cooperative effort of business and banking interests, and sub-committees concerned with special aspects of it are being established.

Raw Commodities Pool

(*e*) A special aspect of this effort now under way is the organization of private cooperative pool arrangements among banks to provide credit to business concerns for replenishment of their normal stocks of raw materials. The essential intention of this will be to shift the large stocks of commodities now in the hands of producers or weaker holders to those of stronger holders with good credit support, thus taking them out of the show window where they depress the market, removing the danger of further distress liquidation of them, and stimulating speculative interests to resume their normal function of carrying them. Its importance consists in the possibility of checking the excessive deflation of commodity prices and improving the position of the farmer and raw material producer.

(*f*) The final step in the Administration's program, now under consideration by a sub-committee of the unofficial national organization, is to stimulate employment in the industries producing machinery and equipment through a national drive for the modernization of industrial facilities. The essential strategy of this campaign will be, first, to assure credit facilities for the purchase of equipment, either by finding some way to support them under the powers of the R.F.C. or by stimulating the securities market sufficiently to speed the flotation of new capital issues; and second, to enlist the self-interest of both buyers and sellers of equipment in a modernization program through the local banking and industrial committees and the business press.

The War Debts

(*g*) For the future the Administration, through the President's acceptance speech, has left the way open for expansion of foreign trade by suggesting that it may be willing to bargain with war debt revision for removal of discrimination against American exports; and for stimulation of domestic enterprise by revision of the anti-trust laws. Both of these, of course, depend upon further Congressional action—and re-election.

Cotton Garment That Shrinks Seems on Its Way to Oblivion

COTTON garments that will shrink in the laundry are rapidly becoming obsolete, soon will be unsaleable, in the judgment of many acute observers. Given its great impetus by the success of the Sanforizing process, developed and patented by Cluett Peabody & Co., the pre-shrinking of fabrics is becoming more and more general. It is regarded as one of the major developments of recent years in the textile industry, ranking in importance with the great improvement in high speed machinery, and the imminent introduction of non-run hosiery.

Sanforizing is accomplished by an ingenious and elaborate machine which, steaming and drying the fabric, brings it to a mathematically predetermined breadth and length that represents what the technicians call "zero shrinkage"—in plain words, to the point where it will shrink no more. Introducing it originally as a great sales point for Cluett Peabody shirts, the company now has licensed various manufacturers to build the machines. A considerable number of garment manufacturers are using the process.

Two New Processes

Two more processes have just been announced. The Prosperity Co. has opened a plant at Syracuse, N. Y., and plans to establish 5 more units at strategic points in the East and South, each with 250,000 yards weekly capacity. This process wets the goods, then passes them through a high pressure steam press which removes creases and wrinkles and gives both warp and filling shrinkage without exerting tension. The company plans to provide labels for shirts and other manufacturers to indicate the materials have been pre-shrunk.

North Carolina Finishing Co. offers a process especially applicable to the better grades of shirtings and underwear cloths, especially those which have been mercerized and bleached or dyed. Water and steam are forced into the fabric under pressure, which then goes through a finishing machine. This is done twice. In the end, the goods are sleek and silky. They will, under repeated launderings, shrink a little more, but less than half a garment size. The company plans to retain the process for the exclusive benefit of its customers.

It's an Old Nuisance

Shrinkage in cotton goods has been allowed to annoy the garment manufacturer and the ultimate consumer for decades, mostly because of trade inertia. It is due in large measure to the necessary stretching of the goods in the finishing machines.

Pre-shrinking, speaking roughly, restores the goods to loom size. This may, in broadcloths, be a reduction of anything between 4% and 10% both in width and length. Shrinkage in other materials varies vastly, as every housewife knows.

When cotton shirts, underwear, women's dresses, men's uniforms, summer suits can be guaranteed not to shrink, it is predicted their sales will be increased appreciably. For example, the large sales of seersucker suits for men this season are said to have been stimu-

The Business Week

LINOLEUM ON THE WALLS—*Armstrong Cork Co.'s new "Linowall" line includes fabric and flexible felt-back wall covering in plain and embossed tile and marble effects. Baths and kitchens are the primary market*

lated by new and better pre-shrinking processes.

Wool goods manufacturers are watching the new mechanical shrinking processes with keen interest; wool spongers are a bit nervous about them. Textile technicians say they see no reason why Sanforizing and the other new cotton processes should not be adapted to woollens. There is no economic justification for the wool sponger, they remark; some day the woolen mill will find out it can just as well do the job itself.

Hot Weather and Low Cost Bring Boom in Light Clothes

But makers wonder whether cheap summer wear for men will help or hinder winter-weight buying

DEPARTING dog days leave the men's clothing trade with some things to cheer over and much to worry about. Heavy sales of light summer suits in the great Eastern cities raise questions important to retailer and manufacturer: When he lays aside his white suit, will Mr. Citizen resume the shiny garment in his closet or will he get a new one? Will buyers demand the ridiculously low priced wool suits that appeared during the summer? Is the rise of the light suit a climb or a jump? What are the woolen interests going to do to hold their summer business?

Most pressing is the fixing of an accurate price range for fall retailing. The appetite for cheapness has been whetted by production of suits retailing at $15. Low-price chains are continuing into the fall with them. Bargain sales tend to fix $15 in the public mind.

Such suits wholesale for $9 to $10, produce little if any profit for worker, manufacturer, or retailer. Once started, such things are hard to scotch. Indications are that retailers, fearful of getting price above pocketbooks, will cling to the low figures. They probably will offer $15–$20 garments in the bottom brackets, $22.50–$30 garments in the next higher levels.

For overcoats, there is hope. Production declines gauge the extra seasons that have been coaxed out of such raiment. Advance orders convince the trade that overcoats are getting so shabby that buying this year will be forced, regardless of any general upturn.

Woolens Stand Pat

Successful invasion of North, East and West by light summer suits suggests radical changes in manufacturing. Makers of woolen textiles and garments are being raked over the coals for not designing a cloth to meet the competitive threat. Formerly the woolen folk anchored their conviction to the stubborn buying habits of the male. Cotton and linen fabrics did not "look as good as woolens," light clothes cost a lot to keep clean. Men perspired in hot sheep-grown cloths.

This prejudice melted first under the hot sun of the South. Spread of light clothes into other sections during the past summer was achieved by smart merchandising. Weber & Heilbroner, big New York retailers, report a 25% increase in sales of seersucker, Palm Beach, and linen suits. There was also a general rise in gabardines.

Makers of light suits first attacked the male vanity through better styling. Palm Beach is the patented name of a cotton and mohair cloth of the Goodall Worsted Co. Formerly the cloth was sold to different makers, who sometimes injured the name by turning out poorly made and poorly cut suits. Last year Goodall took over the entire manufacture thereby insuring quality of workmanship and prices. Regular retail price is $15. Main plant for suit-making is Knoxville, Tenn. That company reports great success under the new set-up.

Promoting Seersucker

A similar achievement marked a new deal for seersucker. This is a light puckered, washable cotton fabric which gets its name from Persian words meaning "milk and sugar." Seersucker long has been popular in New Orleans. Thence it spread gradually through the South. Last year Lorraine seersucker stepped out. Exclusive manufacture was given Haspel Bros., New Orleans. Retail price per suit was $10. Better-made, better-looking garments were produced. Promotion of national scope emphasized adoption of the suit by college students, business and social big-shots. Backed by the comfort argument (seersucker coat and trousers weigh 24 ounces), the campaign went over. Lorraine outlets rose from 867 to 2,000. Dollar sales gained 50%,

against an estimated decrease of that amount in clothing sales generally.

Linen suits apparently fell below the gains of the fabrics just mentioned—perhaps through lack of a definite drive in their favor. Linens, after a little wear, wrinkle and bag. The fabric resents dark dyes; black linen has a tendency to lapse into a discouraged green. Competing fabrics, especially Palm Beach, have been produced in attractive browns and greys.

Grab for the Band Wagon

The success of this summer assures an even more determined drive next year in all the big cities. Realizing the handicap of linen, one Irish manufacturer is said to have perfected a non-bagging fabric which will bid for American popularity next season. Other textiles are grabbing for the men's clothing band wagon. Rayons are due in this market. Palm Fiber (new Scotch tropical material of wool and goat's hair) is popular along the Riviera and may be expected to cross over to give battle in the U. S. market. Wool designers are expected to improve tropical worsteds, perhaps remove from mohairs that old-fashioned look.

The highest remaining hurdle in the path of the light-colored suit is the cleaning problem. Laundry interests would do well to work it out with the clothing industry. Washing white or light suits is an art, understood in Southern cities, yet to be mastered by most Northern laundries. Improperly done, cotton and linen suits have a tendency to pull out of shape, look like heck. Laundry prices must be adjusted, too. Macy's sold linen suits for $7.95—but any buyer might have been appalled by an upkeep prospect of $1 to $1.50 for frequent cleaning. New York laundries did come down some, from $1 to $1.50 per washing, to 75¢-$1. That is still not enough to overcome the differential favoring the dark wool suit which gets by with an occasional dry cleaning.

Trouble Ahead?

New York's famous clothing industry views the shift to summer suits with considerable concern. These garments have little or no tailoring, can be made by women on machines. The bulk of them come from Baltimore and points South. Right now these towns have the jump on Northern clothing centers—both in cost and skilled work. Next year will tell whether the seersucker and its breezy brothers are in the Northern field to stay. And whether New York is going to step out of its groove and go after its share of the market.

Brazil Just Can't Afford An American Coffee Famine

BRAZIL has probably accomplished nothing more successfully in recent years than the present censorship of news concerning the revolution. For 4 weeks bankers and exporters and importers and bondholders have speculated over just what is happening in the Amazon republic. São Paulo, major industrial center and heart of the coffee business, is at odds with the central government in Rio de Janeiro. Rebels and regulars have been reported in skirmishes. Santos, port of São Paulo, has been blocked by the regulars. Shipments of coffee are held up. Business with Rio is going on more or less normally.

Nothing about Brazil more intimately concerns Americans than the coffee business. Normally, more than 8 million bags of Brazilian coffee are shipped to the United States every year. Blended with milder coffees from Central America and Colombia, it makes what has come to be known as the national drink of the Yankee.

Paying the Grain Corp.

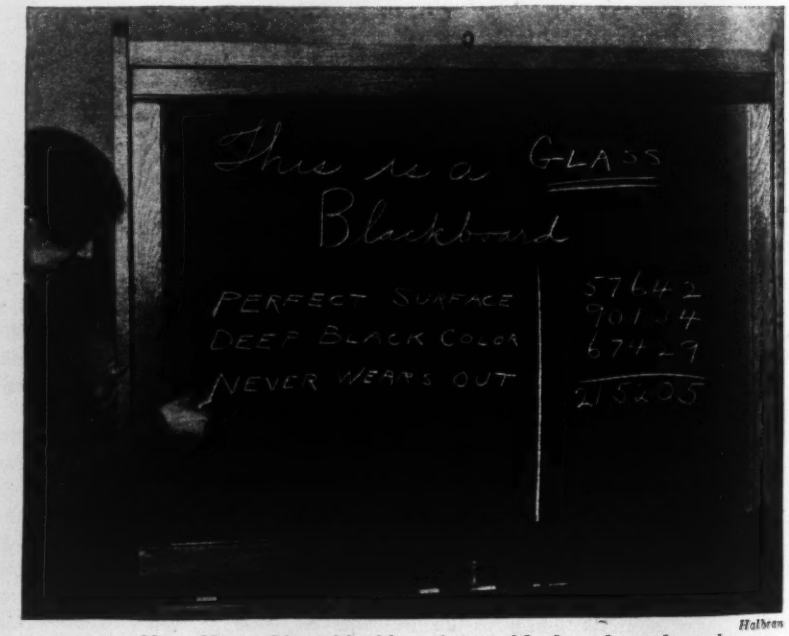
Last week there were rumors that a coffee famine might be averted in the United States in the next month or two only by the release of the stocks of coffee held by the Grain Stabilization Corp. following the coffee-wheat barter deal last spring.

Coffee experts are more sanguine over the outlook. The Grain Stabilization Corp. no doubt is "sitting pretty" enough not to need this added credit. Coffee has appreciated steadily in price since it bought. Paper profits, unless wheat jumps up in value very rapidly, are likely to aggregate nearly $3 millions. Its supply of coffee now is the largest in this country—totals, according to an Aug. 1 report, 1,166,541 bags. All other stocks on that date came to only 764,857 bags. Fewer than 150,000 bags were on the way from Brazil.

Arrivals 60% Off

Arrivals of Brazilian coffee in this market in July were scarcely more than 60% of the total for July, 1931. This, no doubt, was due in part to the fact that the port of Santos was closed for at least a part of the month. It was due, also, to the prospect that Farm Board stocks were to be marketed according to a plan beginning in September.

Statistics reveal a rather significant trend. Total sales of coffee to this country in the first 7 months of this year ran to only 2,197,000 bags. A year ago, when imports were admittedly heavy,



Halbert

ANOTHER NEW USE—*Glass blackboards are blacker than slate, have no defects. An abrasive suspended in the molten glass makes it take the chalk*

the total was 7,349,000 bags. Consumption is obviously lagging.

With nearly 2 million bags on hand on Aug. 1 (including the Farm Board supply) there is still no real fear on the market of a coffee famine. These stocks will carry for at least 2 months. In the meantime, coffee will continue to come from Central America. And old Brazil hands say it is likely to come from Brazil too, for Rio ships some coffee and São Paulo is no doubt maneuvering to get the port of Santos open. Coffee is the backbone of Brazilian economic life and no revolution could go on long without the funds which come from the sale of coffee.

Gas Range Makers Lay Their Campaign Plans

WHEN plans were announced for a tremendous campaign to sell electric ranges, the gas range men got together, laid their own plans for a 3-year sales drive (*BW—Jun22'32*). News filtered through that for one reason and another the electric range campaign was not getting under way, and some of the less aggressive were all for delaying the gas range drive. But leaders of the industry by this time were enthusiastic over possibilities, and over new models developed in anticipation of the campaign. They carried their point. The campaign will go on.

A special subcommittee sat fascinated in a New York hotel last week while 5 great advertising agencies told them how to spend their millions to best advantage. When the parade had passed the reviewing stand, Campbell-Ewald of Detroit—biggest client, General Motors—had won the job. First advertisements will appear in February.

There are 80 manufacturers in the industry. More than 90% of the industry's capacity is contributing 5% of current net billings to the campaign. It is calculated this will give a fund of $1 million the first year. In no year is the expenditure to be allowed to top $2 millions.

The industry will sell a million ranges this year for $75 millions. It hopes far to exceed those figures in 1933. New model ranges are very persuasive. They are said to burn much less gas to accomplish a given job. Clock control of ovens, thermostats, automatic lighting for all burners—all these features are presented in handsome settings. Prices are lower than they were for the obsolete gas stoves makers hope to throw out of kitchens.

Westinghouse Goes Hard After Air-Conditioning

WESTINGHOUSE ELECTRIC & MANUFACTURING CO. is going into air-conditioning in a big way. It will blanket the field, and push into some areas that are new.

Westinghouse will offer installations of air-conditioning units for the home, office, barber shop, restaurant, hospital room, X-ray room, hotel room, and small apartment. Also railway installations for the dining car, sleeping car, day coach, and freight car. Recently announced was a railway coach air conditioner, gear-driven from the car axle. Gear drive is said to be twice as efficient as belt drive in this application. Moreover, the unit can be plugged into the alternating current power line when the car is standing in the station. Illinois Central cars are using the system.

One of the new ideas is "reversed refrigeration." An air-conditioning installation is required in summer to absorb in pickup coils the heat that is within the house, and pump it to radiators or other coils where it can be dissipated out of doors—just as the refrigerator picks up the heat that leaks into the food chamber and radiates it into the room atmosphere.

In winter, the direction of flow is reversed, in the Westinghouse system, so that the equipment picks up the heat in the outside atmosphere and brings it inside to warm the house. It seems a paradox to get heat from the cold outdoors to warm a house. The explanation, of course, is that the atmosphere is only relatively cold; even zero Fahrenheit is some 460 degrees above absolute zero. An experimental installation at Reading, Pa., heated an ordinary frame house satisfactorily in zero weather. Efficiency is rated as 3 to 1 to 5 to 1; that is, current consumed produces 3 to 5 times as much house heat as if the electricity were directly converted into heat.

Formation of a complete organization for the engineering, development, and sales of air-conditioning apparatus was announced this week.

License Deal May Swing Clock Price Pendulum

ESTABLISHED electric clock manufacturers, depressed by poor sales and annoyed at increased competition from makers of cheap clocks who have hammered down average retail prices from $20 in 1929 to $6.50 in 1931 (*BW—Jun29'32*), take new heart in a cross-licensing arrangement, long awaited and just concluded.

The Warren Telechron Co., in which General Electric Co. is interested, Westinghouse Electric & Manufacturing Co., and New Haven Clock Co. have entered into such an arrangement and have, in turn, granted licenses under their patents to the Sessions Clock Co., Forrestville, Conn., the Hanson Manufacturing Co., Princeton, Ind., Wm. L. Gilbert Clock Co., Winsted, Conn., The E. Ingraham Co., Bristol, Conn., and the Waterbury Clock Co., Waterbury, Conn. Previous licenses had been granted by Telechron to the Herschede Hall Clock Co., Cincinnati, O., and the Chelsea Clock Co. of Chelsea, Mass.

The new licensing arrangement is expected to permit these independent manufacturers to make non-infringing, self-starting synchronous electric clocks. It is expected also to dissolve numerous suits, charging patent infringements.

Significant is the omission of the Hammond Clock Co. from the list of new licensees. Chief competitor of Warren Telechron, Hammond is engaged in a suit with Warren Telechron over auxiliary-powered synchronous electric clocks.

"Stingless" Stockings Foil Mosquitoes

WOMEN'S stockings are being treated with a chemical, mixed with the dye, which is odorless and harmless to human beings, but highly offensive to mosquitoes.

New York retailers, including two of the most important, are selling the "stingless" stockings.

Buyers Get First Peek At New Non-Run Hosiery

NEW YORK and Philadelphia have had their first look at the new non-run full-fashioned hose. Berkshire Knitting Mills, Apex Hosiery Co., and Schuylkill Valley Mills exhibited samples. Deliveries are promised Oct. 1 and the retail price is to be $1.35.

Verdict of buyers is that close up the new stocking looks like a fine, pin point mesh, and from a little distance, like a fine chiffon. It is agreed there is some sacrifice of sheerness, but very little. The new stitch uses more silk per stocking, and takes more time on the machine.

Samples exhibited so far come from

the Schwartz machines, patents for which are held by a pool of manufacturers in Textile Patents Corp. No samples of stockings from Gotham Hosiery Co.'s machine, made under the Graentz patents, have reached the market. Litigation over the patents is apt to be long-drawn-out. The U. S. Patent Office on July 15 declared an interference—the technical procedure that gets the fight going.

The industry in general regards introduction of the new product as one of the epochal events in textile history.

Grinnell Taps Home Market With Simple Sprinkler System

IN these days of diminished commercial activity, more than one big company is discovering the home market. Now comes the Grinnell Co., long-time manufacturers of sprinkler systems for factories, warehouses, and office buildings, with the Grinnell "Junior" system for the home.

The regular Grinnell system is a matter of large iron pipes, hangers, and so forth. The new Junior system uses copper tubing, easily bent to go around beams, compression fittings, where fittings are necessary.

Most fires in the home get their start in the cellar. There are stored the wastes of the household, there are the paint pots and workbench of the home tinkerer. There is also the furnace, and the hot ashes which do find their way into wooden boxes and barrels despite the best intentions of the householder. There, too, is the better part of the wiring of the house on the leads which get the greatest service.

Low-Cost Protection

The new Grinnell system offers sprinkler protection in this danger zone at low cost. A loop of copper tubing carries water to sprinkler heads spaced 12 feet apart, one to every 120 square feet. Sprinkler heads are the new quartz bulb type, which open at 135 degrees, some 30 degrees lower than the old-type solder heads will function. Included is a simple alarm valve.

When fire threatens, a sprinkler head lets go, water pours through the loop, actuating a flapper valve which rings an electric bell.

Installation is equally simple. Tubing is sent out in 12-foot lengths. One end carries a sprinkler outlet, permanently attached; the other, a tubing fitting. Elbows, tees, threaded joints generally, are omitted. The tubing is simply clipped to the floor joists above, with sprinkler heads inverted.

Distribution is through plumbing and heating contractors who are now being recruited for authorized installation agencies. Merchandising, as yet, is limited to direct mail pieces supplied to the contractors.

The low cost opens up an entirely untouched market for home fire protection. About $50 will cover the installation in a small cottage, $250 a large residence, store basement or lodge hall with many separate rooms necessitating individual protection.

Plumbing and heating contractors, who have suffered considerably from the slump in new building construction, welcome the new system as a chance to make a profit by doing work on existing buildings.

Table "Linen" May Now Be Rayon or Durene

LINEN long has been queen of the table napery business, a supremacy earned by virtue of original appearance and, more important, appearance after laundering. Now this championship is challenged by two contenders. Paris department stores are showing table sets in rayon, of smart design, in pastel shades. From report of buyers, the job has been done cleverly.

Not to be left behind, durene makers turn up with a snappy line of table cloths and napkins, packaged with a brand name. Deep research developed the astounding fact that the real objection to cotton table cloths was that they shed lint on dark clothing. Well, mercerized goods shed their lint before they are woven.

New Short-Staple Rayon Fools Even Cotton Looms

INCREDIBLE to the layman are the complexities of textiles. Incomprehensible to them, therefore, the interest among textile men in the announcement that American Bemberg Corp. had begun producing untwisted filaments which, when shipped to Nyanza Mills, Woonsocket, R. I., are cut into short staple of a character suitable for spinning on cotton equipment.

Translated, it means that rayon, wholly synthetic, is being processed to suit machines designed for cotton, the resulting product being plain, crepe, and novelty spun yarns trade-marked "Sun-spun," which promise new effects in finished goods.

And behind that technical item is a skirmish, for duPont some time ago conceived the bright idea of chopping its viscose rayon fibre into lengths to correspond with the natural limitations of cotton, so that cotton spinning machines could produce new effects to beguile Mme. Shopper.

Chromium-Plating Unit Meets Industrial Need

CHROMIUM plate has its utilitarian as well as its decorative purposes. In machine shops, its value has long been recognized. Drills, dies, punches, many other tools dependent on accuracy for their usefulness, stay accurate longer when plated with chromium.

The plating provides a renewable wearing surface as hard, or almost as hard, as the steel of the tool itself. When the face of a gauge is no longer true, it may be built up by replating with chromium.

For this market, United Chromium, Inc., which recently established the validity of its patents (*BW—Aug17 '32*), has designed a plating unit simple enough to be operated by any workman. All the parts of a plating outfit, which formerly had to be picked up here and there in the trade, have been assembled on one base, ready to connect with electric, steam, water, and waste outlets.

G.E. Offers Humidifier For Home Market

GENERAL ELECTRIC follows its introduction of an oil furnace (*BW—Aug 3'32*) with the announcement of a humidifying device, thus continues its drive for the home market.

This "humifilter" combines, as might be guessed, a humidifier with a filter. No duct system is necessary. Air is taken from the cellar, filtered, brought up to the proper relative humidity by a spray of hot water, and discharged into the house by a quiet fan.

Since distribution of moisture in the

The Business Week

HEATER SCREEN—*Our ancestors used high-back chairs and settles to keep off the drafts, conserve fireside heat. Westinghouse has devised an electrically-heated screen to keep body heat from wasting itself on cold walls*

air does not depend on the movement of the air, a single unit on the first floor will supply adequate moisture for the whole house, up to 50,000 cubic feet, consuming about as much current as an incandescent lamp.

Hot water, for faster humidification, is provided by a connection with the house steam-heating plant. Key to successful operation of the device is the humidistat which maintains the relative humidity automatically, prevents too great a degree of moisture which would damage furniture, wallpaper.

Employees Get Life And Group Insurance

GROUP insurance has many advantages, a few disadvantages. Great companies seeking to tighten the bonds of employee loyalty and to give their workers a feeling of security are interested in the fact that the group insurance policy fills the bill at a relatively low cost. Employees like to think that their families will have some protection if they die on the job, will, at the very least, be recompensed for funeral expenses which American custom has made heavy enough (*BW—Aug17'32*).

But both workers and those for whom they work remember that group insurance is automatically cancelled when the job is terminated—and that, sometimes, the employment that brought the protection ends when the employee is so old that the right to convert the group policy to a straight life policy can be exercised only at a prohibitive cost.

Consideration of these advantages and disadvantages determined the Associated Gas and Electric System to include in its recently revised employee insurance program an unusual combination of contributory group and straight life policies whereby workers up to the age of 56 are entitled to both types of insurance on a non-medical basis. According to the scheme drawn up by the 4 large life insurance companies participating — Aetna, Equitable, John Hancock and Prudential—each eligible Associated Gas employee will be covered by a group policy representing approximately 1 full year's pay and may take out, in addition, an ordinary life policy to the same amount. The employing company will contribute 70% of the premium on the group policy, about 30% of the cost (premiums less dividends) of the ordinary life policy. The balance in each case is to be borne by the employee.

So far, more than 13,000 employees, about 90% of the far-flung organization, have signed up for $25,146,000 of ordinary life and $28,505,500 of group insurance. Average policy is $2,000 of each type of coverage. All employees with 6 months' service are eligible. Hereafter, all new ones will be required to subscribe to this program upon joining the company and the undertaking will be handled by a separate service organization to be known as the Employees Welfare Association, Inc. Employees' contributions will be deducted from their salaries.

Illinois Coal Mines May Buy Equipment

CURIOUS things have been happening in the Illinois coal fields. Operators and union leaders arrived at agreement on a wage scale of $5 base against $6.10, the previous level. Miners were confidently expected to accept the cut.

They didn't. Caught by surprise, negotiators faced an adverse vote of the workers. A new referendum was called. Nobody knows how it turned out for the ballots were stolen. In the "emergency," the new scale was declared in effect.

Confusion ensued. But important mines are hoisting coal. Which is sensible. The new scale favors machine mining and machine mining is southern Illinois' salvation. Without it, mines in Kentucky and West Virginia offer competition (*BW—Jul20'32*).

Best bet, therefore, is that the new scale will prevail. If it does, considerable sums will be expended on new equipment, mostly for above-ground paraphernalia to treat and size coal. Illinois mines will pay particular attention to the home automatic stoker unit, which is catching on in that territory. Illinois produces a fine grade of bituminous coal and has been alert to merchandising ideas.

3 Silk, 1 Hosiery Mill Volunteer Wage Rises

THREE silk mills and a hosiery mill announced wage increases this week.

Stehli Silk Corp., employing 1,200 in mills at Lancaster, Pa., and Waynesboro, Va., raised all wages 10%; Southern Silk Mills of Richmond, Va., employing 225 persons, raised wages 10% to 12%; Butterfly Mills, Sidney, N. Y., employing 100, raised wages 5% to 15%. Durham Hosiery Mills, with 8 mills employing 2,000 persons, announced a flat 10% wage boost, due to "general improvement in business."

Future of American Business Depends on Small-Income Buyer

18. The American Consumer Market —A Study by The Business Week

NEXT to the question of what American consumers spend their money for, the most important subject of interest to American business in any study of the American consumer market is by whom the money is spent. There are many ways of describing, identifying, and classifying that elusive, fast-shifting species, the American consumer, and an extensive advertising literature is devoted to the subject, supplemented and supported more or less successfully by elaborate statistical analyses of marketing experience, case studies of special communities, etc.

One important aspect of all this investigation of the consumer market is its geographical characteristics—the study of the consumer species according to his habitat. This has not been attempted in the present survey, partly because the Census of Distribution affords complete and adequate information on the geographical distribution of retail sales of commodities, information which has already been and will continue to be subjected to endless analysis, and chiefly because *The Business Week's* study has been concerned with quite different questions to which less attention has so far been given.

From a fundamental business point of view the purchasing power of consumers is more important than what they buy or where they live. Production and marketing can adjust themselves to changing consumer habits, and sales policies to geographical differences in markets; but only deep-seated economic or political forces can affect the purchasing power of consumers as a whole and its distribution among them. Though this country is fortunately free from rigid class barriers, the American consumer market is nevertheless more sharply split up into sections by income differences than by customs, habits, or geographical divisions.

Study by Income Groups

The characteristics of the consumer market from the point of view of income differences and other income factors will be discussed in the succeeding article. In this article and the accompanying summary table and chart are presented an approximate picture of the consumer expenditures of the American people for 1929 by income groups. This analysis is a synthetic statistical product, based on all available data regarding the distribution of incomes and the budgets of different income groups, applied to the national expenditures for the various budget items shown in the preceding articles of this series.

Institutional expenditures for consumers' goods, a small part of the total, have been included in the table for completeness, and will be discussed in the succeeding article. Space limitations make it impossible to present details of expenditures by income groups for each of the major budget classifications, but taxes and savings, as well as amounts spent outside the country, are shown because they represent the major deductions from the domestic consumer market for goods and services.

Low Incomes Buy Most

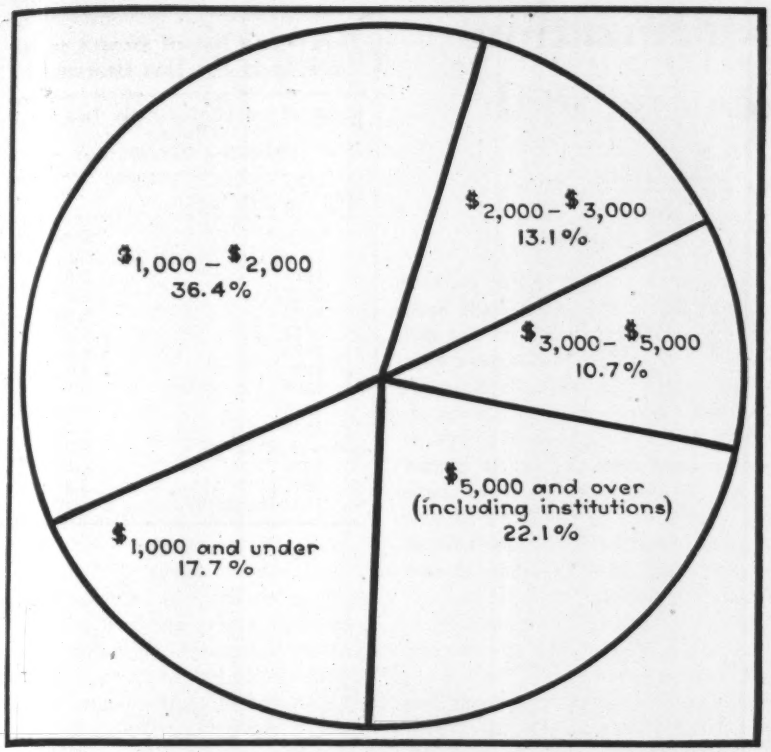
The most significant result is that, in the peak year of American prosperity, more than 75% of the total value of consumers' goods and services absorbed by the American market, including taxes paid and savings made by individual consumers, was absorbed by those with incomes of less than $5,000, and more than 65% by those with incomes below $3,000. These proportions are practically the same if amounts spent outside the country are excluded, or if taxes and savings are omitted.

It is quite clear that the American consumer market is a small-income market and is much more dependent upon wages and salaries than upon other sources of income. The higher income brackets include too few individuals to contribute more than an insignificant amount to total consumer demand. All groups above the $25,000 class together account for a bare 8% of total domestic expenditures, and for goods and services alone, a mere $4½ billions out of $89 billions of individual consumption.

The importance of the low-income groups to the consumer market is even more striking when some of the specific budget items are considered. For food, for example, the group above the $25,000 class account for less than 1% of total consumption, those below $5,000 for 93%, and those below $3,000 for 86%. Despite their numerous palatial abodes, the people of

Distribution of Consumer Expenditures, By Income Groups, 1929

Income Group (Thousands)	*Goods and Services (Millions)*	*Taxes (Millions)*	*Savings (Millions)*	*Spent Outside U.S. (Millions)*	*Total Domestic (Millions)*	*% of Total*
$1,000 and over	$87	$236	$1,045	$207	$1,161	1.31
500 under 1,000	95	132	567	241	553	.54
300 under 500	127	126	518	320	451	.44
150 under 300	523	209	563	284	1,011	.99
100 under 150	481	138	335	312	642	.63
50 under 100	1,268	285	712	326	1,939	1.89
25 under 50	2,002	250	969	336	2,885	2.81
10 under 25	4,529	211	1,326	348	5,718	5.58
5 under 10	5,614	169	941	239	6,485	6.32
3 under 5	9,205	197	1,821	284	10,939	10.67
2 under 3	12,004	232	1,455	260	13,431	13.10
1 under 2	35,506	347	1,806	303	37,356	36.44
1 and under	17,633	153	485	89	18,182	17.73
Institutions	1,799	.....	.....	29	1,770	1.73
TOTAL	$90,873	$2,685	$12,543	$3,578	$102,523	100.00



WHO SPENT THE MONEY IN 1929?—*Proportion of total domestic consumer expenditure for goods, services, taxes and savings, by income groups*

wealth, say above the $150,000 income class, spend less than 2% of what is spent on housing and all related requirements. The transportation market is as eminently a low income market as that for food, nearly 90% of the total being spent by those with incomes below $5,000, and only about 3% by those who earn over $25,000. Much the same is true for clothing. Even for private education the bulk of the expenditure is concentrated in the lower income group.

How Taxes Split Up

Taxes and savings are more evenly distributed among the income classes so far as the volume of expenditures and the proportion of the total are concerned. But still about half of the direct taxes paid are borne by the incomes below $25,000, and despite the enormous surpluses of individual income left after the consumption costs and taxes are paid by the individuals in the higher income groups, more than 62% of the total individual savings accumulated are derived from those with incomes below $25,000. The lowest proportion of total taxes paid and savings made seems to be found in the middle ranges of the rich and the very poor. Expenditures outside the U. S. seem to be most uniformly distributed in amount among the income groups except for the very lowest.

The clear conclusion from this analysis of consumer expenditures is that the lower income groups, who, as will be seen in the succeeding article, constitute numerically the bulk of the consumers in this country, contribute most not only to the market for the goods and services produced by American business but to the new capital needed for business expansion, so that their interest as workers and as savers is paramount for American prosperity.

Russian H_2SO_4 Plant To Be Europe's Biggest

THE Soviet Union aims to become a country of "biggests." Newest addition to the list is the huge sulphuric acid plant at Voskresensk near Moscow which will produce 280,000 tons annually, making it the largest in Europe. Production this year is not expected to exceed 40,000 tons. When the entire chemical group at Voskresensk is completed, it will produce annually 1 million tons of superphosphate and 150,000 tons of pure phosphoric acid. Plans for the factory were prepared by German engineers.

Home Loan Plans Rushed; Cities Scrambl for Banks

DISPLAYING a haste as remarkable as it is unusual in governmental affairs, the Home Loan Bank Board is trying to get its member banks going within a few weeks. The reason, as Chairman Franklin W. Fort explained over the radio, is that in many parts of the United States no mortgage money is to be had just now on any terms, and relief is urgently needed.

Apparently the rediscount facilities of the banks are likely to be utilized to the full as soon as the doors are open, and already Wall Street is talking of the probability of an issue of bonds of the bank, and is predicting they will be in keen demand. Each $1,000 bond, it is calculated, will have behind it $5,000 in real estate. It will be indorsed by the Home Loan Mortgage Bank to the full extent of its assets, and by the member institutions—savings banks or building and loan associations—also to the full extent of their assets.

Must Count Up Mortgages

Such delay as there has been is due to the necessity of getting the Attorney-General to rule on a few points of the law, and to the considerable job of ascertaining how many eligible mortgages there are in each of the proposed banking districts.

Mortgages must be on residences valued at not more than $20,000, must be for not more than 40% of the value of the property, and so on through a list of restrictions. Now there must be $5,000,000 capital in each bank, representing 1% of the eligible mortgages held by members. It follows there must be a half billion dollars' worth of eligible mortgages in a district before a bank can be set up. The mere gathering of this information is a considerable task.

Boosters Show Their Mettle

Meanwhile, numerous cities are scrambling madly to be named as sites of the new banks. The chairman and board members have been bombarded and importuned until their nerves are ragged. But they have got one spark of amusement out of the situation. In the effort to get ahead of rivals, some of the cities have drummed up enough subscription promises to start the bank without any contribution from the U. S. Treasury!

Incidentally, it is believed that when the interesting and historic task of setting up the new system is completed most of the present board will resign. Chairman Fort, for example.

Industry Needs Modernization Buts Awaits Low-Cost Capital

Figures dispelling myth of excess capacity stimulate plans to draw on public credit

THE drastic decline in the present rate of purchases of industrial machinery and equipment and investment in new plant construction by nearly 75% under the annual average for 1919-29, and the closely corresponding drop in payrolls of employees in the industries producing these capital facilities (*BW—Aug 10,Aug17'32*) has not been due to disappearance of need or demand on the part of industry for such facilities. The primary factor has been the decline in long-term credit available to industry at reasonable cost through new securities issues in the capital market.

Depend on New Issues

New purchases of industrial equipment and construction of plant facilities are usually financed principally by new capital issues and partly by apportionment of corporation surpluses to this purpose through regular depreciation allowances and reserves or otherwise. In the years preceding 1929 the annual increase in corporation surpluses (including depreciation allowances under the corporation income tax laws) averaged nearly $6 billions, but apparently only about a quarter of this net addition to surplus was used for purchase of new equipment and plant facilities, since such purchases averaged only about $4.8 billions annually and, of this, $3.3 billions was financed by new capital issues.

The remainder of the annual increase in corporation surplus must have been maintained as reserve, used in the call loan market, or employed otherwise than in expansion of productive capacity. It is doubtful whether the depreciation allowances could have been larger than this proportion and it is fairly certain that no greater amount could have *actually been used* for purchase of new equipment, since the figures for sales of such equipment and the value of new plant construction do not show it.

The importance of this point lies in the indication that neither the increase in corporation surplus nor the volume of new capital issues floated during this period from 1919 to 1929 apparently led to any abnormal growth in equipment purchases which might have created an excess of modern plant capacity. It may be that the increased resources of corporations might better have been distributed in larger wage or dividend payments which would have expanded consumer purchasing power, instead of being used for speculative purposes, but there is no evidence that they were used for excessive additions to equipment and productive facilities.

As the accompanying chart shows, the year-to-year changes in equipment purchases were on the whole proportionate to fluctuations in the volume of industrial production, but did not increase nearly so rapidly. In fact, the increase in value of equipment in use in manufacturing industries, and utilities (excluding railroads) from 1923 to 1929 inclusive—based on the Census estimate for 1922, the new purchases from 1923 to 1929, and an allowance of 5% for equipment discarded each year — was probably not more than 1½%–3% a year, or less than half the annual rate of growth in the volume of industrial production.

How the Cost of New Capital for Industry Has Increased

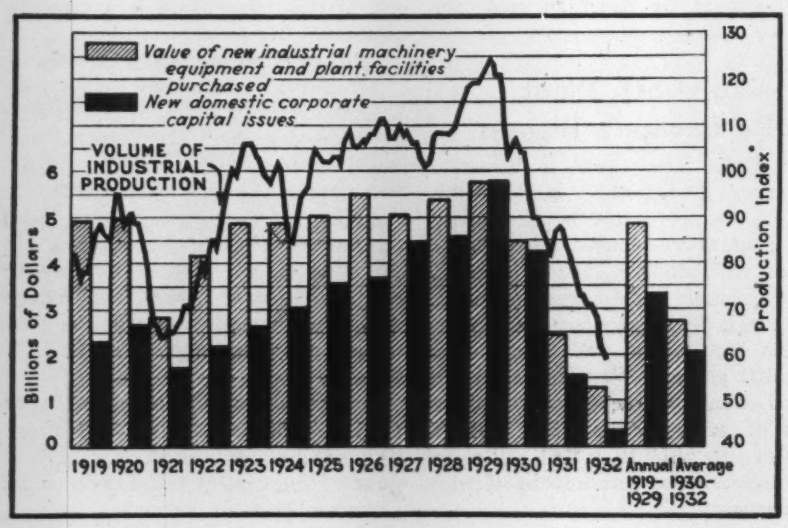
Yield of 15 High-Grade Industrial Bonds
(Standard Statistics Co.)

Monthly Average	%
1919	5.40
1920	6.01
1921	5.96
1922	5.21
1923	5.26
1924	5.21
1925	5.06
1926	4.91
1927	4.83
1928	4.88
1929	5.06
Average 1919–1929	5.25
1930	4.95
1931	5.51
1932 (to date)	7.77

Possibly an Actual Loss

Moreover, since the indications of the *American Machinist's* survey of the metal-working industries in 1930 are that about half the equipment then in use was more than 10 years old and therefore obsolete, it may be said that there was probably no net growth at all in the amount of modern and low-cost equipment in use during this period, and possibly an actual loss.

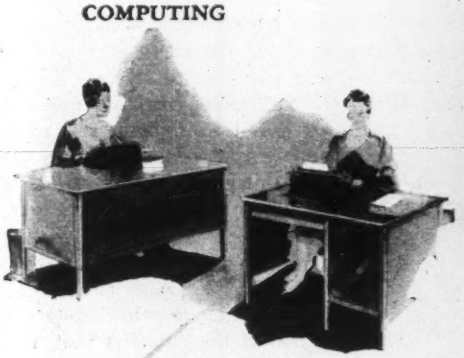
At any rate, as the accompanying chart shows, the contraction in the volume of new capital available through the securities market for equipment purchases has paralleled and even exceeded the decline in such purchases. The present rate of purchase of industrial equipment and construction of plant facilities has dropped 74% below the 1919-29 average; the volume of new domestic corporate capital issues (excluding investment trust, holding company and trading corporation issues throughout) has fallen 90%. Evidently corporations have had to dig into their cash surplus for even the indispensable replacements of equipment; but these surpluses which were so large in earlier years have themselves been in part dissipated by investment losses and have dwindled with the contraction of



If the new Federal
TAX LAW
affects your business, see how this machine will also figure and accumulate the tax as the bills are written.

BURROUGHS TYPEWRITER BILLING MACHINE

COMPUTING



TYPING

MAKE *One* JOB OF TYPING AND COMPUTING *the* INVOICE

ELECTRICAL multiplication—and many automatic features of operation—make Burroughs Typewriter Billing Machine the fastest billing machine in use today. It is the only billing machine that multiplies directly . . . as well as the only machine that types and computes a complete invoice in one operation. All extending (by direct multiplication), discounting, totaling and other calculations are performed *as the bill is typed.*

Investigate this remarkable machine for saving time, promoting accuracy and reducing billing costs. Telephone the local Burroughs office, or write Burroughs Adding Machine Company, 6138 Second Blvd., Detroit, Mich.

Burroughs

corporation earnings, so that the financing of any large volume of new equipment purchases must depend primarily upon revival of the new capital market.

It's the Cut That Counts

Not only is the volume of funds thus made available important, but their cost is even more crucial in the question of stimulating the modernization of industrial facilities. As the accompanying table shows, the yield on high grade industrial bonds has risen over 50% since 1929—a decisive indication of the collapse of investment confidence and the scarcity and high cost of long-term capital for productive purposes.

Until revival of the capital market occurs, through gradual restoration of investment confidence which will permit flotation, at reasonable rates, of new long-term issues for normal maintenance, replacement and modernization of capital facilities, plans are being considered to stimulate employment in industries producing such facilities by special support of public credit resources at low cost to assist in such purchases. The possible expansion of employment and industrial activity in this field through such support is much greater than in the field of railroad maintenance alone.

Credit used for purposes of improvement and modernization of productive facilities is in many respects more surely and quickly self-liquidating than in most other uses to which it could be put, for the latest types of equipment pay for themselves through economies in production within a period of 3 to 10 years. The distribution of credit in this field can be effectively organized through the few strong associations of equipment manufacturers, and demand for it on the part of equipment users can be actively stimulated through the business and technical press as soon as credit becomes available.

Our Oil Wells, and Chemists, Break Chile's Iodine Monopoly

CHILE'S monopoly of the iodine market at $4 a pound is broken. Chile may be able to restore her domination, but if she does, it will be at the cost of heavy concessions in price. Already, the price has broken to $3. Since it is calculated that it is produced for 50¢ a pound in a Chilean nitrate plant of average efficiency, and could be produced for 25¢, there is room for profit left.

But the shock to the Chileans is severe enough, with nitrate consumption and nitrate prices where they are. Yet it is doubtful if the somewhat sleepy iodine trust fully realizes the significance of recent developments.

The economics of the industry never before have been revealed. They are set forth in an article in *Chemical and Metallurgical Engineering*, current issue.

What has happened is that the United States has become a heavy producer; is able, in fact, to supply its own full requirements of some 300 tons a year. World production is 1,000 tons, of which 700 are Chilean. There were months in 1931 when American production reached 15 tons. The oil fields of the United States could turn out 500 tons a year if the incentive of high prices held.

The source of iodine in Chile, as has been said, is the "caliche" or nitrate ore. The iodine builds up to high concentration in the mother liquor of the nitrate plant, and is precipitated out by various methods, refined, and packed in kegs which are sewn up in raw hides. Production is rigidly regulated by the Iodine Association. No plant produces any considerable fraction of what it could, but turns out a strict quota based on nitrate capacity. In the past, production has been kept in careful step with consumption, but because of the inroads made in the market here by American producers, big stocks have accumulated in Chile.

The source of iodine here is the brine from oil wells. Improvements in processes still are going forward, but it still is high cost iodine. The hope is to get costs down to $1 a pound.

Europe turns out about 140 tons a year from seaweed, Japan 150 tons from seaweed, Java 80 tons from artesian wells, Russia a guessed 100 tons from seaweed and oil wells. All of this is high cost stuff; the price probably must remain at least as high as $3 to bring it into the market. All these producers have been aware that Chile could comfortably market iodine at $1 a pound. That knowledge has restrained them from pushing development.

The next move is up to the Chileans. Their Iodine Association always has felt that $3 a pound profit on 70% of the world's production was $4 millions a year, which was obviously better than $1 a pound profit on the total world consumption, which would figure out $2 millions. Consumption has been almost stationary; almost all iodine is used for medicine. Chile obviously can change this policy at a moment's notice.

It is possible her policy has been shortsighted throughout; lower prices might have stimulated research, developed industrial uses which would have called for enormous quantities.

Britain Will Can In American Cans

BRITAIN has suddenly become aware of the fact that the canning industry is a big one which, until recently, has been passed up. Americans are not asleep. If they are going to lose some canning business because of Britain's new tariffs, one way to recoup the loss is to sell the British canning machinery.

The British last year imported 148,000 tons of canned fruits—largely from the Pacific Coast of the United States. Domestic output, despite a large increase over the previous year, totaled only 25,000 tons.

In the last 8 years, 57 canning factories have been established in Great Britain. In 1928, they put out nearly 8 million cans of fruit and vegetables. Last year the total reached 83 million cans, but imports of fruits and vegetables also reached a new record.

Last summer, however, the Metal Box Co. opened a British factory with a capacity of 100,000,000 containers a year. American Can Co. looked on watchfully. Then its subsidiary—British Can Co.—and Metal Box merged. American Can was protecting its place as a supplier of British tin containers. Continental Can already held a minority interest in Metal Box.

This year Food Manufacturers Corp., American concern, has entered the British market through an agreement with Mather & Platt of Manchester, by which the Lancashire firm will make machinery for the canning industry.

The agreement followed the abandonment of gold by Britain. American machinery was virtually shut out. Now business of the 2 companies is pooled. Mather & Platt gain the experience of the American firm in developing their new line of machinery for filling, sealing, cooking and packing canned goods. Food Manufacturers gets inside the British tariff wall.

Wide Reading

THE TAXI RUNS AMUCK. Raymond S. Tompkins. *American Mercury,* August. Lack of regulation is ruining the taxi business as well as most other means of local transportation. The problem from Baltimore to Seattle.

ECONOMIC SIGNIFICANCE OF THE TANK CAR. R. G. Skerrett. *Harvard Business Review,* July. What it will do to businesses which can utilize it.

THE COST OF FEDERAL PUBLIC WORKS. *Engineering News-Record,* July 28. A summary of federal construction expenditures by years and agencies since 1920, and estimated future expenditures for 6 years from 1933. Charts. Analysis, especially from engineering point of view.

WHY FEAR PROHIBITION REPEAL? E. Scott Pattison. *Food Industries,* August. Just what are the economic facts of prohibition and pre-prohibition days?

1932'S LEGACY OF DOMESTIC DEBTS. Lionel D. Edie. *American Bankers Association Journal,* August. The public and private debt structure in this country is undoubtedly excessive in relation to any measure of current national income. It requires a scaling down by the painful process of paying off, of reorganization, or of receivership.

HAVE WE TURNED THE CORNER? *Sales Management,* August 1. 26 reasons why we have; 19 why we have not.

AMERICA OUTSELLS JAPAN IN CHINA IN 1931. *China Weekly Review* (Shanghai), July 16. Details of trade with one of the few countries in the world which increased imports last year.

PLANNING FOR THE NEWSPRINT INDUSTRY. Stanley T. Frame. *Harvard Business Review,* July. Full discussion of the over-expansion now affecting the industry. Tables of stocks, consumption, standings of newsprint companies. For newspaper executives.

BOOKS

REAL ESTATE FUNDAMENTALS. Charles T. Male. Van Nostrand, 474 pp., $4.50. Fundamentals of real estate practice, including economics and legal status of land, land improvements, and real estate merchandising.

THE TRUTH ABOUT REPARATIONS AND WAR-DEBTS. David Lloyd George. Doubleday Doran, 150 pp., $1.50. Demands immediate, complete, and final cancellation of war debts and reparations; attacks Poincaré and Mellon; says the slump is due to debts and reparations and is costing the United States each year 3 times the total debt due her and 80 times the annuities of one year.

A PLANNED SOCIETY. George Soule. Macmillan, 304 pp., $2.50. Solid information, moderately stated. A plan for reorganizing the capitalist system.

SALES TAXES: GENERAL, SELECTIVE, AND RETAIL. National Industrial Conference Board, 79 pp., $2. A brief reply to questions raised since Congress started to discuss a sales tax. Pertinent, up-to-date.

New LAPEL microphone frees speaker from his "*fixed post!*"

No longer must the speaker keep close to the microphone. The newest Western Electric microphone *keeps close to him!* It's worn right on his lapel, letting him move about the platform and drive home his points with complete freedom of action. Used with Western Electric public address equipment, it makes his voice easy to hear in every part of a large hall or outdoor meeting. In picking up the sound, in amplifying it, in delivering it, there's no distortion.

The lapel microphone is the infant of the telephone family—the latest of a growing group of products that are maintaining Western Electric's reputation as leaders in sound transmission. Back of this tiny device is a 50 year experience in the making of telephones for the Bell System.

Lapel Microphones are distributed by Graybar Electric

Western Electric

LEADERS IN SOUND TRANSMISSION APPARATUS

Will you invest 1¢
Johns-Manville
ASBESTOS BRAKE LINING
"Your brakes are in fine shape now, Miss Robinson. But the linings we replaced were certainly worn to the danger point."
"The little Brake-O-Meter gave me the danger signal. I didn't realize just how UNSAFE my brakes were until I made the test."
Johns-Manville JM Brake-O-Meter
ARE YOUR BRAKES SAFE? Here is a simple device that will tell you. Follow carefully the directions on the back.
FAIR
POOR
Safe driving demands GOOD brakes. Poor brakes are a menace to all. Don't take any chances! Let us keep your brakes SAFE.
If your brake test is in the RED—see your nearest Johns-Manville Brake Service Station

MAKE THIS TEST *once a week with your car*

Here is an illustration of the J-M Brake-O-Meter. By placing it on the window sill or floor, flat against glass or door, and making certain tests (explained in detail on Brake-O-Meter) this device tells you accurately whether your brakes are good, fair, or poor. In the latter case, visit your nearest J-M Brake Service Station. Here complete service is available.

to HELP SAVE LIVES?

Over 50% of motorists today driving with bad, even hazardous BRAKES, survey shows. Necessary adjustment and repair work being neglected *far beyond point of safety.* As aid to situation, Johns-Manville offers to supply you with BRAKE-O-METER, free upon request, urging every motorist to

TEST HIS BRAKES AT ONCE

NOBODY questions the fact that this is a year of economy. For almost everybody. Most of us have to watch our dollars—and our pennies, too—pretty carefully these days. And that's all right.

But we can go too far. You agree it would be false economy to neglect your health, don't you? Or to let an insurance policy lapse?

• • •

But *what about the brakes on your car?* That may be endangering your life. Your wife and children. Your fellow motorists.

The alarming fact is, according to a recent survey, that over 50% of the motoring public in this country today are driving with bad, even HAZARDOUS brakes.

More alarming is the fact that *a greater percentage of these same motorists are delaying from 2 to 3 months longer than usual before going to a brake service station and having urgent brake work done.*

Is it any wonder that the *seriousness* of motor accidents is increasing?

Is it any wonder that figures indicate that the number of killed and injured in motor accidents is mounting to staggering and ever-increasing totals this year?

Is it any wonder that Safety Leagues and accident prevention clubs, and car campaigns are sweeping over the entire country, from coast to coast?

Brake Experts Agree

Brake experts in different parts of the country all agree on this one point—*the majority of motorists are endangering their very lives—and the lives of other people—because of bad brakes that demand immediate attention.*

The other day we talked to a prominent brake service man in Albany, N. Y. "If I could make just one statement to the motoring public," he said, "it would be, 'For goodness' sake, do something about your brakes—now.'

"Over 40,000 cars go by my shop every 48 hours," he continued. "One day I made a careful check. Half of them couldn't even stop at the red light on this corner. They'd go from 10 to 30 feet before they could come to a halt. What will they do in an emergency?"

What will *you* do in an emergency?

Write for J-M Brake-O-Meter today

This is not the time for you to take chances with your car. If you need brake work, go to your nearest J-M Brake Service Station without delay. At least your car will be under control in an emergency, whether the other fellow's is or not.

Don't take a chance even if you think your brakes are in good condition. Johns-Manville offers you a simple little device that will tell you *exactly* how safe your brakes are. It's the new J-M Brake-O-Meter . . . free upon request. A 1¢ postal card brings it to you immediately.

Write today for this Brake-O-Meter. Invest 1¢ to HELP SAVE LIVES and join with the thousands of motorists all over the country who will see the wisdom in testing their brakes at once.

Address Johns-Manville, 292 Madison Ave., New York City.

DRIVING FACTS to know about and think about

The increased speed and power of today's car have increased the seriousness of motor accidents.

85 out of every 100 accidents resulting in deaths occur under clear weather conditions.

The force required to stop from any given speed is *6 times as much* as it takes to attain this speed.

Most accidents occur in broad daylight.

The most dangerous hour is between 5 and 6 o'clock on Sunday afternoon.

All 4-wheel brake cars should be able to stop in 25 feet or less at 20 miles per hour, *yet only 40% can do so.*

An automobile going 60 miles an hour strikes an object with an impact as great as though it had been driven over the edge of a 10-story building and had crashed to the pavement 120 feet below.

In 81% of all mishaps the roads were dry.

The difference of only *2 or 3 thousandths of an inch* (the thickness of a piece of ordinary writing paper) in the clearance between brake lining and brake drum may be the difference between safe brakes and brakes that will fail you in a pinch.

Johns-Manville

Controls
HEAT, COLD, SOUND, MOTION
Protects against
FIRE AND WEATHER

While Ottawa Achieved Little, It May Have Started Something

Possible loss to American industry, $75 millions; "empire content" proposal is threat to branch plants

No superlatives are necessary to describe the results of the Ottawa conference. They were used months ago by the protectionists in Great Britain when trying to win their constituencies over to a tariff. There were large promises then of all that might be bargained out of the empire in the way of trade concessions.

The conference, on the other hand, was not a colossal failure. It did fail to bring about a great all-around-the-empire agreement to level tariffs on family products. It failed to reach any agreement on currency and monetary problems. It failed to embrace anywhere near the volume of trade that might be expected to pass between one-fourth of all the people in the world living under a single king.

It succeeded in convincing the members that they are not fitted economically to try to do business at all exclusively with each other. Canada is too much tied up with its nearest neighbor, the United States, to give Britain all she wants for her manufacturers. Britain is doing too great a volume of selling to the Soviets, the Danes, the Argentinians to exclude their products. Australia is aware of other markets than London. So are Cape Town and Auckland.

It succeeded in making every delegation stop and rationalize its own position at home before insisting on impossible trade concessions. It succeeded in arriving at 7 bi-lateral trade agreements which will function through a central board which will strive to extend them.

New Business for Britain

Time will be required to analyze all the benefits which have come from Ottawa. Just now they seem quite small. British industry may get as much as $200 millions of new business from dominions as a result of the special treaties. It will go especially to the iron and steel industry, to special branches of the textile industry, to the pottery, glassware, and miscellaneous industries. Probably one-third of this business formerly went to the United States.

Preference to the dominions has been dealt out cautiously. London's delegation cannot face a British electorate if they put a tariff on food without bringing compensating new business to key industries at home. If certain Soviet imports are placed at a disadvantage, the move is carefully guarded so as not to stir up Russian ire. Britain is busier now with Soviet orders than with business from most of the dominions. And if Denmark is to remain an important textile market, the British must not shut out Danish butter.

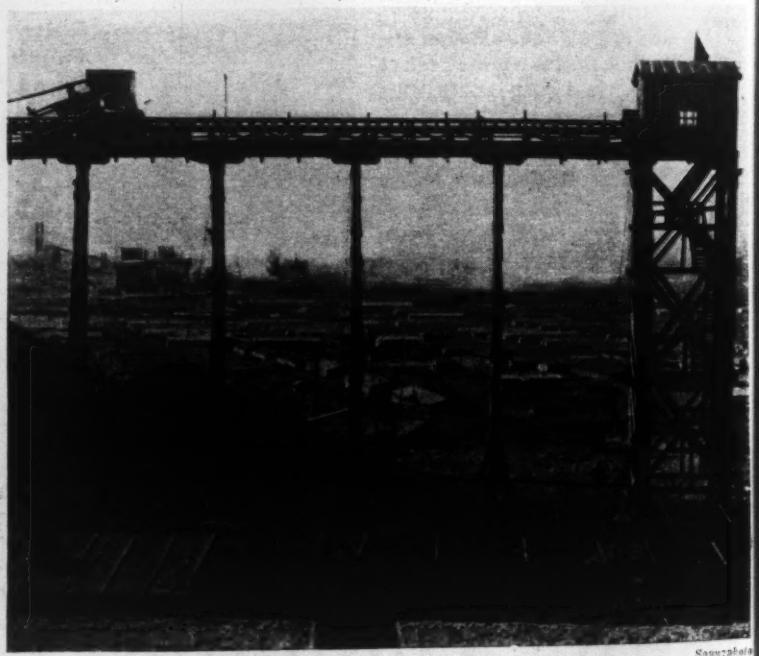
Americans are not especially perturbed over the volume of business they are likely to lose as a result of the meeting. Even if it runs to $75 millions, they can afford to lose it if it means the return of activity for any of the dominions, for each has been a good market for American products when times were more prosperous.

More interesting to the Americans were the discussions concerning branch plants and "domestic" or "empire content" of various exports if they are to enjoy preference in empire markets. In the last few years, more than 1,000 American branch plants have located in Canada. At the time, 2 reasons were advanced: (1) to escape the Canadian tariff, and (2) to be able to sell within the empire on a preference basis. Questioned recently, not 15% of these plant managers admitted that they were aiming to sell in empire markets outside of Canada.

Plants May Move

"Empire content" will determine the future of many of these plants. Should all of the members eventually agree through the Empire Content Committee to saddle them with a fixed quota of labor and material that must be supplied from empire countries, and should this content be as much as 75%, many of these branches are likely to leave Canada. So will some that have gone to Britain. Just now, empire content varies from 25% in Great Britain, through 50% in Canada, to as much as 75% in Australia, and on certain products in almost all of the dominions. The threat is to make 75% standard. Foreigners will surely balk at this.

What has come out of Ottawa is so far very small. If it paves the way for further bargaining within the empire on the foundation which has been laid, its influence may be considerable. Now that it is over, each member is free



Sovuzphoto

MAGNITOGORSK—*Through the trestle of the ore crusher on the slopes of "Iron Mountain" can be seen the great metallurgical plant. Here in the Ural wilderness, 200,000 workers are busy building and operating the iron mines, blast furnaces, and steel mills so important in the Soviet plans*

to bargain with old and tested customers for new agreements. Here is a hope. It may start the way for general tariff revision. That was one of the promises of Ottawa

Chicago Roads Put Freight On Express Agency Trucks

RAILROADS running into Chicago are all ready to put into operation next week their long-heralded test (*BW—Apr27'32*) of highway trucking service in cooperation with Railway Express Motor Transport, Inc., subsidiary of the Railway Express Agency. The start will be made on 2 routes—between Chicago and South Bend and Chicago and Milwaukee—covered by big aluminum-bodied trucks of the trailer type, specially built for the job. They will carry all classes of merchandise excepting livestock at less than half present express charges. Delivery rates run from a minimum of $1. There is to be a special pick-up service at 10¢ per 100 pounds of freight, minimum 50¢. For the present only interstate business will be handled.

Carload Rates Sought In Fight for Cotton

FIGHTING hard for the cotton traffic that has been slipping into the barges and the trucks, the railroads have submitted to the I.C.C. a proposal to substitute carload rates for their present any-quantity rates on cotton to New Orleans and other ports. The change would cut cotton shippers' freight costs about 50%, against the 20% slash in any-quantity rates that proved ineffective last season.

At this level the roads want the cream of the crop—no expensive spotting of cars for picayune shipments. To insure this they would prescribe a minimum weight to which all cars must be loaded and have set the minimum so high that cotton shipped from little gins without modern compressors can't make it.

This has brought New Orleans protests that the railroads are discriminating in favor of interior compress points, that the port's $10-million investment in cotton-handling facilities is jeopardized. But last April the I.C.C. refused to suspend carload rates proposed on cotton from a small part of the Mississippi Valley. Proponents of the plan see a precedent for a favorable decision. Truckers, barge operators are worried.

Corporations CAN *have souls and hard heads too*

ONE example of the typical American corporation's fairness is the spread of employee pension plans. Yet in taking so progressive a step the corporation should use hard-headed business sense and keep cost at a minimum.

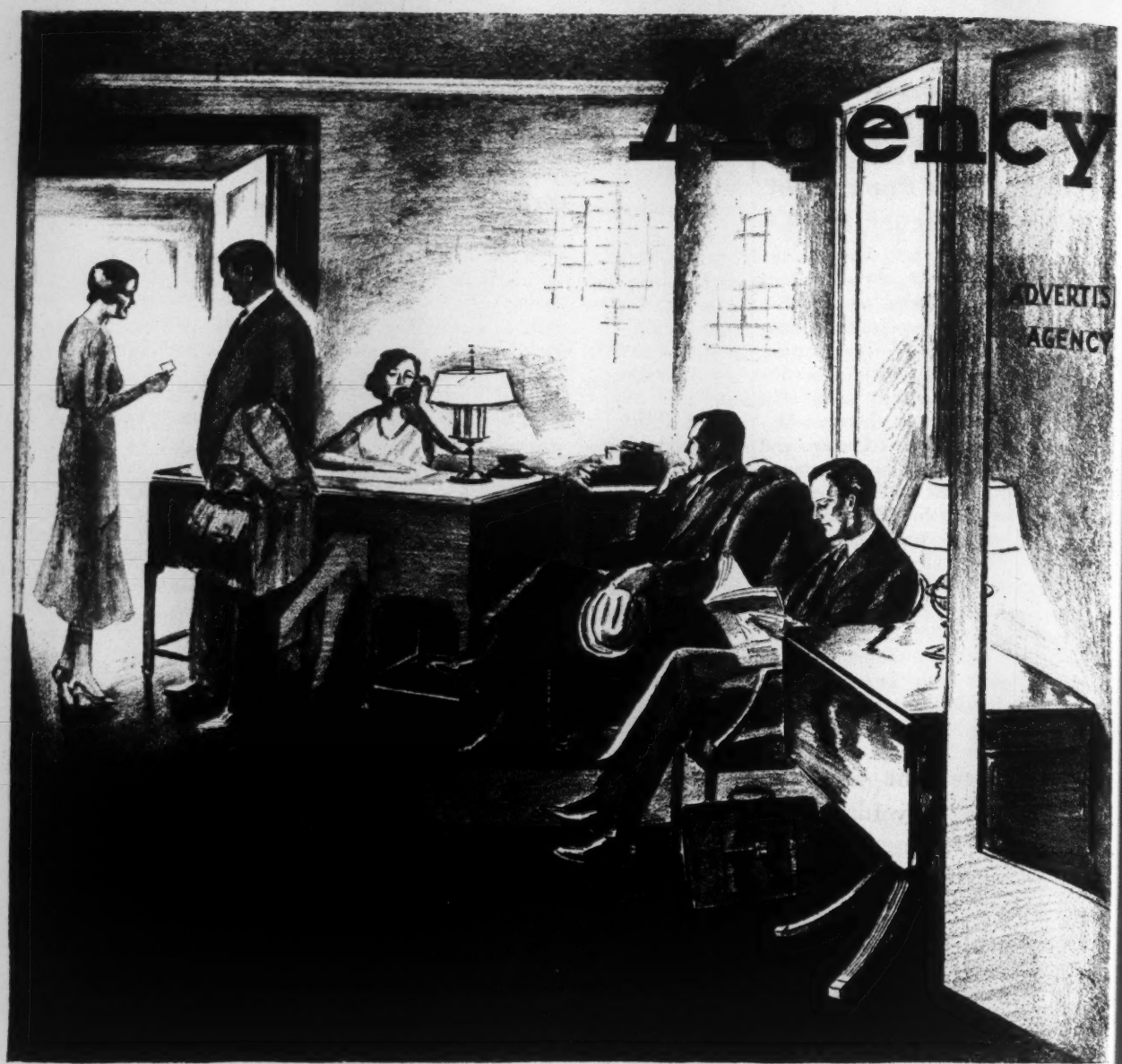
A pension is, of course, a form of life annuity. It is akin to life insurance in that it is based on the average duration of life. Proper planning demands the same actuarial science which has been developed through three generations of experience by insurance companies.

Without obligation you may secure helpful information on this subject. Learn how the insurance company will guarantee the safety of the pension reserve funds and the adequacy of their yield. In addition it handles all details incidental to the investment of the funds, computes rates of contribution by employer and employee, disburses periodical payments to pensioners, pays death benefits, makes refunds for terminations and withdrawals, and is responsible for many related matters.

An inquiry will bring some useful data prepared by a company which has pioneered in this field.

THE EQUITABLE
FAIR — JUST
LIFE ASSURANCE
SECURITY — PEACE OF MIND
SOCIETY
MUTUAL — COOPERATIVE
OF THE U.S.
NATION-WIDE SERVICE

Address Thomas I. Parkinson, *President*, THE EQUITABLE, 393 Seventh Ave, New York, N.Y.



This is the story of the modern advertising agency, and its place in today's business picture . . . a story every business man should know . . . but too few do.

# of what..for whom?

THERE are two main elements in today's business picture: On the one hand, 120 million people with needs, wants, desires that make them prospects for various products and services. On the other hand, 2¼ million businesses—many of them competing—all of them engaged in catering to these needs, wants, desires. "Business", as we understand it, is the result of bringing these two groups together to a point of mutual understanding, where one receives the the product or service it wants, and the other receives payment in return.

It is at this point of strategy that the advertising agency functions. For the job of the agency is to bring these two groups together. To show the buyer what the product will do for him. To show the manufacturer what the buyer expects the product to do for him.

The advertising agency, then, is an agency of interpretation—an agency that not only carries the producer's story to the consumer, but also interprets the consumer's wants and desires to the producer. The first process we call advertising; the second research and marketing.

Advertising isn't as simple as it seems—it's more than just putting the manufacturer's sales story into the consumer's language. First, the agency must single out the logical audience. Which group has a natural need for its client's goods? Which group can be turned away from competitive makes? Which group, not now using the product, can be taught to do so? Then having found the logical markets, the agency brings expert knowledge of how to reach those markets most economically and effectively. And, finally, it uses its creative ability to tell the sales story in interesting, convincing, sales-producing fashion.

That calls for work on the research and marketing side of the picture. The agency must study the habits, the desires and needs of the prospective customers, so that not only the advertising but the product itself will have the correct appeal. It takes hard work to find the answers to marketing questions. But that mustn't stop the advertising man.

For, "The advertising man", to quote Glenn Frank, "is a liaison officer between the products of business and the mind of the nation. He must know both before he can serve either."

Which is one of the reasons why the good advertising agency is in the best position to direct and write your advertising.

McGRAW-HILL PUBLISHING CO.
INCORPORATED
330 West 42nd Street · New York, N. Y.

Because McGraw-Hill's continued success depends upon the success of its advertisers, we publish this, the ninth of a series of advertisements on the value of advertising agency service in the creation of sales-producing advertising.

SAVED

28%
IN FLOOR SPACE
29%
IN
FILING EQUIPMENT
COST
by
a great banking
institution . . .

THE Cleveland Trust Company, as everyone knows, is a conservative banking institution. It follows that they are alert to all opportunities for constructive economy—in their own management and in behalf of their depositors. They were quick to recognize the important saving both in floor space and cost of equipment afforded by the McBee System.

A close comparison between the relative economies of transfer cases and Mc Bee Binders revealed a saving in floor space of 28%. Moreover, a comparison of initial costs demonstrated another saving of 29% in favor of McBee.

Important records must be accessible, but the keeping of them can easily become a burden to your costs of operation.

Recognizing this problem, The McBee Company has made a complete survey of Records—their Value, Storage and Destruction, based on their years of experience counseling diversified industries and commercial institutions. An examination of this survey will enable every business executive to see where further reductions can be made in operating costs and better control effected.

Ask your secretary to write for this important information

The McBee Company
ATHENS, OHIO
BRANCHES IN ALL PRINCIPAL CITIES

While Soviet Loan Is Unlikely, Soviet Bonds Are No Novelty

Response to "international issue" story shows keen American interest in Russian market

Moscow is not contemplating the floating of a loan in the United States or in any other foreign country. A report to the contrary last week caused no little flurry in New York and London. In Washington it produced a brief, but blustery, storm. The blow is over now, but there are still traces of it in the ranks of nervous bankers, and in the eager group of farm equipment and machine tool manufacturers who thought it was going to bring them a windfall of delayed Soviet orders.

First headlines assured a startled public that the Soviets were going to launch an international, 10%, short-term bond issue, callable at any time on demand. Because of the difficulties of floating Soviet bonds in this country, the sales campaign, the first report indicated, would be directed from Moscow.

There Won't Be Any

Since the report was misleading, it is needless to give any further details. There will be no such issue of Soviet dollar bonds. But Americans can buy bonds of this type. To some, that became known for the first time during the recent flurry.

In the last 7 years, the Soviet Union has issued a number of so-called domestic loans to help Moscow finance the industrialization scheme. Some of them bear interest as low as 6%; on some the interest is 12%. On the majority, it ranges from 8% to 10%.

Foreigners have been permitted to subscribe to many of these issues and, as a concession to them, special certificates have been attached to the bonds promising payment of both interest and maturity in the currency of their country, provided they purchase the bonds with that currency. The State Bank authorizes its correspondent banks abroad to accept deposits of funds for the purchase of bonds ordered through Moscow.

Engineers Take Bonds

Sovietophiles in New York were unwilling to venture guesses this week on the amount of the various Soviet Union bonds now held abroad. They did admit that many engineers who have worked under contract in Russia have accepted a part of their salary in these dollar bonds and are receiving regular interest payments at 9% or 10% in dollars in New York. The same authorities hinted that London probably held a small volume of these bonds.

The bond story ends just there, but not the speculation which it has aroused. For many weeks, now, Washington and New York and Chicago have heard rumors that "Hoover is going to say something about Russia." Some expect him to advocate recognition; others predict he will urge that R.F.C. funds somehow be made available to manufacturers to finance the huge Soviet orders they claim will be theirs as soon as they can offer reasonable credits; still others think he will suggest that an official commission visit the Soviet Union and report back to Washington.

Industry, depressed almost to the sinking point but knowing all along that Soviet orders were available on terms not too severe to attract industrialists in other countries, talked about sending over its own investigating committee (*BW—Jun15'32*). The plan has not been abandoned, but it is waiting now for the November election.

Clean Record Imperative

Some of the most important American engineers who have worked for the Soviets and who are most outspoken in their advocation of trade credits are firm in their conviction that Moscow has not yet reached the place where it is advisable to grant Russia large foreign loans. They believe firmly that the Soviet Union's impeccable credit record is due in no small part to the realization that further credit depends on a perfect past record. A part of the blemish of repudiation of Czarist debts has been wiped out by the clean record on their own obligations. Better to continue this way until more seasoned in their new rôle than to be tempted into impossible obligations.

There has been, from time to time, talk of encouraging Soviet business in this country by accepting 10-year gold bonds in payment.

The bond story proved to be just a flurry, but it blew up a lot of fresh interest in a potential market which industry eventually is going after.

Business Abroad—Swift Survey Of the Week's Developments

Sentiment continues hopeful. . . . German business accepts political situation calmly, anticipates no major upset, no economic adventures. . . . British conversion big success. . . . French wheat price down sharply. . . . Considerable political uncertainty in Far East. . . . Brazil a question mark. . . . Financial recovery continues; industrial pickup not yet in sight.

Europe

EUROPEAN NEWS BUREAU (*Cable*)—The new optimism gained a firmer hold on Europe this week. There were both favorable and unfavorable developments. They can be summarized.

Favorable: (1) Unqualified success of the British conversion plan, largest financial deal in history. News is coming from Italy that a similar step is being contemplated as a part of financial adjustment in that country. France is preparing for the step this fall, but London now anticipates that the French will attempt it on a piecemeal basis.

(2) Continued steadiness on the stock markets; and the general upward trend of commodities.

(3) Relieved political situation in Spain as the government puts down the attempt at revolution; in Moscow and Tokyo because the long-pending fisheries controversy has been settled; generally because Mussolini's shift of ambassadors is interpreted as a move toward greater cooperation with France and Britain in their new accord.

(4) Evidence that the government in Germany has the situation well in hand and that business there does not anticipate any economic adventures by irresponsible leaders.

(5) Realization that the Ottawa conference, though it has brought no great results, has not failed to start bargaining for broader international trade.

(6) Belief that Hoover has paved the way for a world conference to take up major economic problems.

Central News

KING FISHERS—*Nearly 500 executives of Japan's great fishing companies assembled in Tokyo recently, appealed for government aid, listened to first-authentic reports that Japan and Russia have signed an accord extending Japanese fishing rights in Siberian waters another 4 years. At February auctions in Vladivostok, Japanese firms leased 101 of the 200 fishing grounds which were offered by the Soviet authorities.*

Unfavorable: (1) Steadily declining foreign trade in almost every country.

(2) The growing prospect that Germany will soon request relief on her private foreign debts.

(3) Failure of industrial indicators generally to record improvement.

(4) Threat of a major strike in the British textile industry.

(5) Continuing Irish-British deadlock, though it is bringing Continental countries new trade opportunities.

(6) Lack of any sign that present impossible trade barriers may soon be lowered.

France

Prospect of bumper crop sends French wheat prices down. . . . Treasury encouraged in its own plans by success of British conversion. . . . German situation received calmly.

PARIS (*Wireless*)—Relatively, French business was featureless this week. Actually, in the summer lull, 2 or 3 developments received considerable attention.

Outstanding, from the domestic point of view, was the spectacular drop of 40% in wheat prices, compared with July, despite the fact that only 3% of foreign wheat is now allowed for milling purposes. The decline is due principally to the alarm felt over the farmers' expectation of a bumper crop with a probable small exportable surplus, combined with the promise of the government to import considerable quantities of Central European wheat in return for commercial concessions for French manufactures in that region. Wheat prices have been maintained in France at nearly three times the levels abroad. This is possible only so long as there is a deficit in the domestic supply.

French stock markets are following eagerly the lead in New York and the new optimism in London. Success of the British conversion operation has cheered French Treasury officials responsible for planning a similar project. Even German developments are accepted hopefully as being so much less unfavorable than they might have been.

Germany

Sentiment improving. . . . Business remarkably unconcerned over politics. . . . Securities steady. . . . Government construction program to reemploy

250,000. . . . Small July trade balance renews rumors that country will soon need to call conference on private debts.

BERLIN (*Cable*)—No single development attracted more business attention in Germany this week than the Hindenburg rebuke to Adolph Hitler, leader of the National Socialist party, which is the strongest in Germany but which failed to return a majority in the Reichstag elections the last day of July. Hitler's appeal for the Chancellorship of Germany was flatly refused by the aged President of Germany. Hitler was also warned that any attempt to gain that position by a *coup d'etat* would meet with the firmest resistance of the government. The political horizon is clearer as a result of this move, though the ultimate outcome of the fight is still uncertain.

Government in Control

Chancellor von Papen and his "strong arm" backer, General von Schleicher, have made it plain that they do not intend to give up their posts to Hitler. They feel that under present circumstances and in view of the uncertain outcome of the elections, a "presidential cabinet"—a cabinet which is not necessarily dependent on a party majority in the Reichstag but which enjoys the confidence of the President—is the only way out of what otherwise is a hopeless deadlock. At the same time, they would welcome a few Nazi leaders in the cabinet to assume their share of responsibility, but not as delegates of their party. They should be nominated by the President on the basis of personal qualification.

Business Not Alarmed

While all this has been going on, business and finance are viewing the situation without undue alarm, as reflected in a firm and steadily rising stock market. This feeling is no doubt based on the belief that, whatever happens, the present administration is strong enough to prevent any dilettante or demagogic economic and financial experiments, in particular in regard to inflationist measures. The president of the Reichsbank, Dr. Luther, is considered the safest bulwark and guarantee against any adventures.

Business sentiment is improving faster than the industrial indicators. Declining production in the heavy industries has been retarded recently, but, except for textiles, activity in the light industries is still contracting. One of the very hopeful developments this week was the announcement from Berlin that the government is pushing plans to get the governmental construction program under way as soon as possible. Hindenburg has pressed upon von Papen the necessity of being able to present to the Reichstag at the end of the month a plan for the absorption of some of the unemployed. Details are still lacking but it is known that the government contemplates the expenditure of $80 millions on this project with the aim of employing 250,000 men.

Foreign Trade Contracts

The rising wave of optimism was marred by the July foreign trade report which showed a favorable balance for the Reich of only $15 millions, which is barely half the amount necessary each month for Germany to maintain the servicing of her foreign debts.

Private debts are the focus of attention in both diplomatic and banking circles. Opposition to any plan demanding lower interest or deferred payments is widespread, but it is unlikely that the country will be able to do otherwise than call an official hearing on the matter in the near future.

The process of capital writing-down, though in itself a painful, but necessary, prerequisite to an eventual upturn, is proceeding unabated. The total amount of capital cuts by German companies during the first half of 1932 was almost $200 millions, in contrast to $30 millions during the corresponding period of the previous year.

Contraction of retail sales is going on uninterruptedly and has lately severely affected department stores.

Great Britain

Sentiment improved following striking success of conversion project. . . . Stocks still active, prices firm. . . . Threat of textile strike increasing. . . . Foreign trade in July was not good. . . . Small results at Ottawa already discounted.

LONDON (*Cable*)—All Britain is buoyant over the results of the huge conversion operation which were announced this week. The operation has not been completed, but returns for July, first month after the announcement, have been tabulated and they assure success for the plan.

More than $6,438 millions out of a total of $7,960 millions outstanding have been accounted for. This is almost 89%. Of this amount, holders of only 2.3%, or $168 millions, have asked to have their bonds redeemed. Less than $658 millions is left outstanding. Financial London expects that holders of a large portion of this amount will allow their bonds to convert automatically on Sept. 30.

Optimism Spreads

With this assurance that the Treasury will have to find little more than £100 millions for short-term financing, with the continued rise of commodity prices, and with the continuing interest in stocks at rising prices, the whole tone of the market has improved. It is true that the majority of observers still feel that the better spirit on the stock market and the actual burst of trading both in Wall Street and London is only a flash in the pan, but there is a healthy minority which really believes that this time the real turn has come. It is perhaps significant that the financial editors are again beginning to recommend certain shares after a long period of restraint.

Retail Sales Steady

Lewis's, Ltd., owners of large department stores in big provincial cities, have maintained their interim dividend at 25% and state that trading in the last 6 months has not been unsatisfactory. As their main stores are in nominally depressed areas, this announcement has had a marked effect on the business mind.

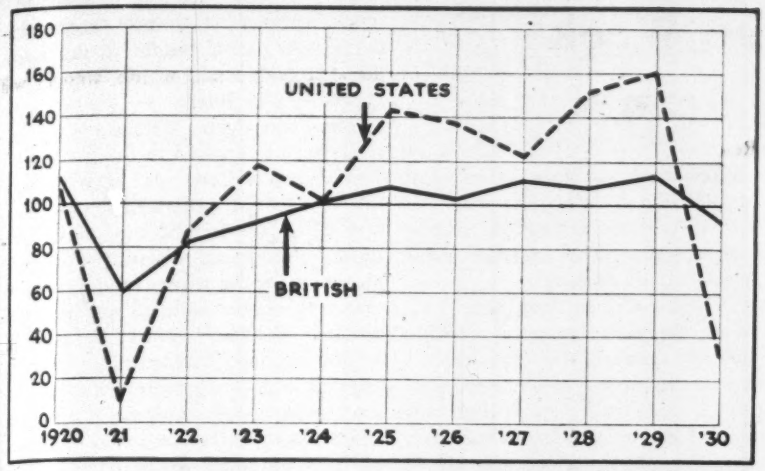
The official ban on new capital issues has not yet been removed, and will probably remain effective until the end of September, when the conversion operation will be ended. If the present feeling of recovery is not changed by any untoward event, the certain appearance of industrial conversions from high interest to low interest-bearing securities should be reinforced by a number of ordinary capital offers needed to finance extensions following tariff advantages or to finance new amalgamations and rationalization projects held up by the slump.

Textile Strike Likely

Several developments are less encouraging. The threat of a strike in the Lancashire textile region is increasingly serious. Workers have refused to consider a further wage cut of 14%, but have delayed the date of stoppage until Aug. 27, allowing the owners another chance to negotiate. Prospects are most gloomy. If the strike goes into effect, 200,000 workers will be out.

July foreign trade returns are not good. Both imports and exports are down, and the unfavorable balance exceeded £19 millions.

London is pretty much discouraged over the negligible gains which the



Financial News, London

INDEX OF PROFIT—*It shows, according to Sir Josiah Stamp, the "capacity of the States for enjoying depression and prosperity to the fullest extent possible," the more even trend of profits in British industries (see below)*

Ottawa conference is likely to bring to British business. The British had been led to expect far more than $200 millions of new business as the result of empire trade preference. It remains now for London to bargain with old customers—Denmark, the Argentine, France—for further trade alliances (page 20).

Industry is still comparatively inactive but inquiries are good.

Sir Josiah Stamp, famed British economist, chairman of the London, Midland & Scottish Railroad and director of the Bank of England, has just introduced to British statisticians a new index of profits. This index, plotted against what Sir Josiah considers a comparable index of profits in the United States, is reproduced here.

Index of Profit

Not until Sir Josiah's investigations are more fully explained will statisticians pass judgment on the new index, and this is not likely until the proceedings of the Royal Statistical Society are published. It was before the members of this organization that the British economist first revealed the results of his research.

Sir Josiah is still weighing two methods of constructing his index. His first effort he calls a "general" index. It is based on the net earnings reports of British companies as compiled by the London *Economist*. He uses totals after debenture interest is deducted, and combines these with income tax assessments.

The alternative index is based only on a study of common stock dividends. It is this more sensitive index which is reproduced. His index of American profits is explained no further than to say that it is derived from the income tax returns in the United States. In every case, 1924 is taken as a base.

Latin America

Civil war continues in Brazil with no news coming out. . . . Coffee famine unlikely. . . . Mexico announces another construction project.

BRAZIL is still the center of interest in Latin America, but more because of the lack of news coming from there than from any definite reports. Civil war is continuing between the government and the rebels in the São Paulo area. One report this week said that the São Paulo branch of the Bank of Brazil had been closed by the rebels. Wall Street has no confirmation of this report, nor any news from correspondent banks in the region. Rio authorities are evidently as much in the dark. Censorship of the news emanating from the country continues to be complete.

Coffee is still rising in the New York market. The rumor of a coffee famine (page 8), however, is discredited because of the stocks held here and because no one believes that the trouble in Brazil will continue long without one side or the other getting its coffee out for the sake of the funds it will bring. Central American and Colombian coffee growers are likely to benefit from any prolonged stoppage of exports from Brazil.

News of construction activity continues to dribble out of Mexico. This week it is the report that Mexico City is going ahead with plans to build annually 600 or 700 small homes for workers. Yearly outlay will run to about $300,000. Included in the project is provision for sanitation, paved streets, water and light services, and schools.

Far East

Increasing political uncertainty mars trade outlook in Far East. . . . Rapidly spreading Communism weakens position of Nanking government in China. . . . Japanese yen at new low. . . . Many exhibitors at annual Japanese trade fair in Manchukuo.

POLITICAL tensions in the Far East are marring faint prospects of economic revival. Yen exchange is down seriously. A part of this is due to the unfavorable balance of trade. More importantly, speculators are no doubt worried over the continuous drain on the Treasury of maintaining several divisions of Japanese troops in Manchukuo.

Soviet-Japanese difficulties were considerably eased when the Japanese turned their interest from northern Manchuria to the western area near Peiping. Last week, there was a further move toward orderly relations when Moscow and Tokyo signed an agreement making definite Japanese fishing rights in Siberian waters until 1936. More than three-fourths of Japan's enormous crab catch is in this area where rights are leased from the Soviets. A few land canneries have been set up on territory leased from the Soviets. Many floating canneries of the most modern design operate annually in this great fishing region.

Chinese Business Better

Chinese business is recovering slowly. Crops are good. There is no sign of flood though the rainy season is nearly over. The spread of communism, political instability at Nanking, the threat of Japanese aggression spreading beyond Manchukuo are holding up progress more than any other factors.

Japan is pushing business relations with Manchukuo. At the recent 3-day Japanese commercial exhibition at Mukden, nearly 700 manufacturers, particularly from the Osaka region, exhibited phonographs, radios, small electrical and gasoline machinery equipment, cash registers, rubber and leather footwear, cotton and woolen goods, foodstuffs and novelties. Sales were nearly 40% greater than at last year's exhibit.

The Figures of the Week And What They Mean

Business activity shows little inclination to support the improved position of stock and commodity prices. . . . Motor manufacturers are closing down for inventory taking, leaving a scattering of miscellaneous consumers to support the steel industry. . . . Railroads still hesitate to accept the funds offered for equipment repairs and purchases, but there are good chances that many will fall in line with the Pennsylvania sooner or later. . . . Electric power production continues to decline, and carloadings have followed suit. . . . Department store sales and life insurance sales during July reflect the shrinkage in purchasing power of consumers.

THOUGH a number of miscellaneous steel consumers have ventured to place modest orders for their fall requirements, the "big three"—automobile, railroad, and construction industries—continue to sit tight, waiting for business improvement. Activity in steel ingot production is estimated unchanged at 14% of capacity during the second week of August. The adjusted index stands at 22% of normal.

Stove manufacturers and wire producers are beginning to note a trickle of stronger demand, but the centers catering to automotive products are now entering a very dull period that will extend at least until after Labor Day, and possibly longer. Ford has closed down his Detroit plants, but the 35 branch assembly plants will continue open on a short week schedule. Steel activity in the Detroit district which attained a level of 80% of capacity in the second quarter now has dwindled to 13%. When the Ford plants reopen, production is expected to be no greater than 9,000 units a week, mostly the V-8 line. The peak output of 27,000 cars was reached a month ago. Chrysler has also closed temporarily, and most other manufacturers are operating at much reduced schedules. August production is almost certain to fall below the 100,000 mark which was closely approached in July.

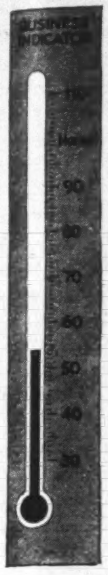
The Pennsylvania Railroad is the first road that has applied to the Reconstruction Finance Corp. for a loan with which it might undertake the construction of 1,500 freight cars in its own shops. The plan would provide employment for the winter months to some 700 men on the railroad and an equal number outside. Steel tonnage of 19,000 tons will be required. Since the acceptance of the government's offer to lend money for equipment purchases and repairs will be left to the judgment of the individual roads, some time is bound to elapse before the steel industry will be able to estimate how extensively it may be able to benefit.

Railroad Needs Surveyed

Steel has made an interesting survey of heavy steel needs on railroads, calling attention to the tremendous retrenchment of the roads in the past 2½ years on rails, maintenance, and new equipment. Repairs have been undertaken chiefly when safety demanded, and then by means of stripping unused equipment. Stocks have been reduced

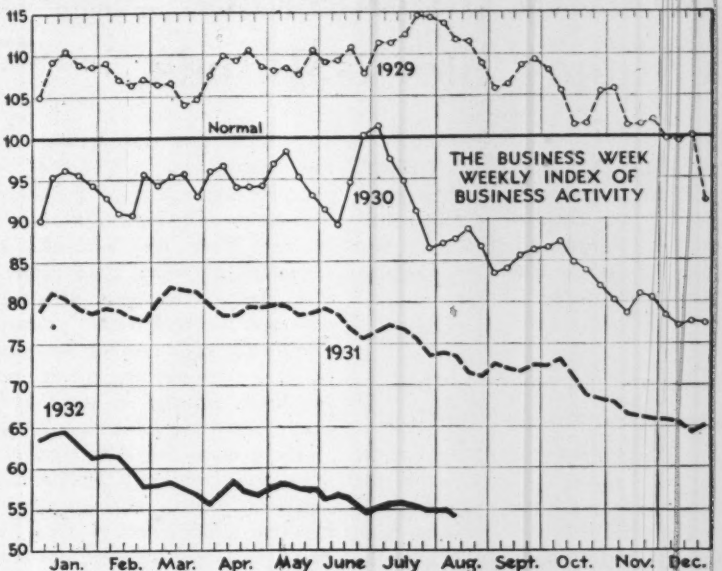
THE BUSINESS WEEK WEEKLY INDEX OF BUSINESS ACTIVITY	*Latest Week*	*Preceding Week*	*Year Ago*	*Five-Year Average (1927-1931)*
	*54.3	†54.8	73.6	.....
PRODUCTION				
Steel Ingot Operation (% of capacity)	14	14	33	64
Building Contracts (F. W. Dodge, daily average in thousands, 4 weeks basis)	$5,172	$5,326	$11,053	$18,884
Bituminous Coal (daily average, 1,000 tons)	*744	†773	1,134	1,423
Electric Power (millions K.W.H.)	1,415	1,427	1,629	1,596
TRADE				
Total Carloadings (daily average, 1,000 cars)	83	85	122	161
Miscellaneous and L.C.L. Carloadings (daily average, 1,000 cars)	57	57	82	103
Check Payments (outside N. Y. City, millions)	$2,518	$3,095	$3,781	$4,914
Money in Circulation (daily average, millions)	$5,725	$5,738	$4,918	$4,752
PRICES (*Average for the Week*)				
Wheat (No. 2, hard winter, Kansas City, bu.)	$.49	$.46	$.44	$.99
Cotton (middling, New York, lb.)	$.074	$.066	$.068	$.151
Iron and Steel (STEEL composite, ton)	$29.34	$29.46	$31.04	$34.34
Copper (electrolytic, f.o.b. refinery, lb.)	$ .052	$.052	$.073	$.127
All Commodities (Fisher's Index, 1926=100)	61.9	61.1	69.5	88.6
FINANCE				
Total Federal Reserve Credit Outstanding (daily average, millions)	$2,363	$2,395	$1,084	$1,209
Total Loans and Investments, Federal Reserve reporting member banks (millions)	$18,622	$18,696	$22,075	$21,969
Commercial Loans, Federal Reserve reporting member banks (millions)	$6,349	$6,365	$7,863	$8,675
Security Loans, Federal Reserve reporting member banks (millions)	$4,609	$4,631	$6,479	$7,093
Brokers' Loans, N. Y. Federal Reserve reporting member banks (millions)	$345	$332	$1,329	$3,570
Stock Prices (average 100 stocks, Herald-Tribune)	$85.73	$84.54	$118.41	$153.78
Bond Prices (Dow, Jones, average 40 bonds)	$79.26	$76.77	$93.42	$95.15
Interest Rates—Call Loans (daily average, renewal)	2%	2%	1.5%	4.3%
Interest Rates—Prime Commercial Paper (4-6 months)	2-2½%	2¼-2½%	2%	4.1%
Business Failures (Dun, number)	650	†670	451	411

*Preliminary †Revised



The Index

The weekly index of general business activity, first of its kind, is compiled by *The Business Week* from 8 series of weekly figures —steel mill operations, building contracts, bituminous coal production, electric power output, non-bulk carloadings, check payments outside New York, commercial loans of reporting Federal Reserve member banks, and currency in circulation. It shows the current level of the average daily physical volume of business as compared with the normal for the season and the year. Normal, represented by 100, is what the current volume of general business activity should be if the usual seasonal changes and year-to-year growth had occurred. For further explanation see *The Business Week*, May 7, 1930, p. 39.



to such an extent that replacements can be made only with great delay. Reorders of needed parts are often made in half dozen lots instead of thousands.

Strength in scrap steel continues to be the most favorable aspect of the steel markets. Prices are reported to have risen from 50¢ to $1.50 a ton. Dealers are withholding supplies in anticipation of further increases. Pig iron prices have weakened as a result of foreign competition, and concessions have been made on sheets, tin and terne plate and strip.

Construction Prospects

The trend of August construction is not yet available, though the expectations are for some decline from the July level. Records compiled by the *Engineering News-Record* on heavy construction for the early days of August indicate some falling off from the $30 millions a week average established in July. The week ended Aug. 1 brought out $28,166,000, Aug. 8 $21,858,000, and Aug. 15 $14,751,000.

Both anthracite and bituminous coal production declined during the week ended Aug. 6, but the drop has little significance at the moment. The reduction of wages to the $5 a day level in Illinois has been grudgingly accepted by most miners and production is expected to resume slowly. Those who still oppose the new scale have been warned by J. L. Lewis, president of the United Mine Workers of America, to desist from picketing and mass meetings.

A further decline in electric power production during the week of Aug. 13 reflects the continued lag in industrial improvement. In the New England region the decline from a year ago has increased to 11.2% compared with 10% a week ago.

Electric Power Consumption

Consumption of electric power during June continued the trend noted in previous months. Domestic consumption is slowly approaching the level of a year ago, and now stands but 1.5% above June, 1931. Municipalities and miscellaneous consumers have sharply curtailed consumption in recent months. From January to April, this group was averaging from 11% to 20% ahead of the preceding year. In May, the spread was 3.9% above a year ago, but in June a 20% decline is reported.

Only 3 classifications of freight showed an increase over the closing week of July, and this was insufficient to outweigh the declines in other classifications. Railroad officials are viewing the continued shrinkage in freight shipments with concern. Numerous requests have arisen for reduction of rates on commodities, and the roads are wondering if such reductions will win back freight lost to the motor truck.

Check payments in the 140 cities outside of New York declined during the week ended Aug. 10, but the drop was in line with the usual trend and did not affect the index which remained at 64% of normal. In financial centers the drop was much sharper, exceeding 24%. During July, check payments were but slightly lower than in June, except in the financial centers. The decline in New York City debits was greater than 10% for the month.

Currency circulation is declining in irregular fashion, though the drop in the daily average from the peak established in the first week of July is only $60 millions. Bank closings during the week ended Aug. 11 number only 16. The increasing use of non-withdrawal agreements in the Middle West tends to understate the real number of insolvencies.

Credit inflation is not apparent in the commercial loans report of member banks. Since the early part of January, these loans have been shrunk by more than $1 billion.

Commodity Prices

The July report of wholesale prices of some 784 commodities compiled by the U. S. Bureau of Labor Statistics reveals a gain of nearly 1% over June, the first reversal of the steady downward trend since August, 1931. Farm products advanced more than 4¼%, food prices more than 3½%. Hides and leather products and metals declined.

The improvement that became apparent in July has on the whole continued. In the past week some wavering occurred as the stock market showed signs of uncertainty. Rubber, silk, wheat, cocoa have hesitated in the upward march, but hides, coffee, cotton, tin, and lead continue to gain. Cattle and hog prices remained firm, as did wool. Corn and silver varied slightly from day to day.

Trends of the Markets In Money, Stocks, Bonds

Supported by steady advance in bonds and expectation of all business improvement, stocks hold their spectacular gains, despite technical setbacks. . . . Return flow of gold and currency fortifies banking position, but credit expansion is slow.

Gold and Currency Gains Strengthen Bank Position

THE resurgence of speculative activity in security markets has affected the banking picture comparatively little as yet. The chief influence so far has been to strengthen the reserve position of the member banks through the inflow of gold and return of currency from circulation, reflecting convalescence of foreign and domestic confidence and revival of foreign interest in American securities. Borrowings from the Reserve have been further reduced and excess reserves increased, easing the position of outside banks and putting city member banks under additional pressure to find employment for their resources.

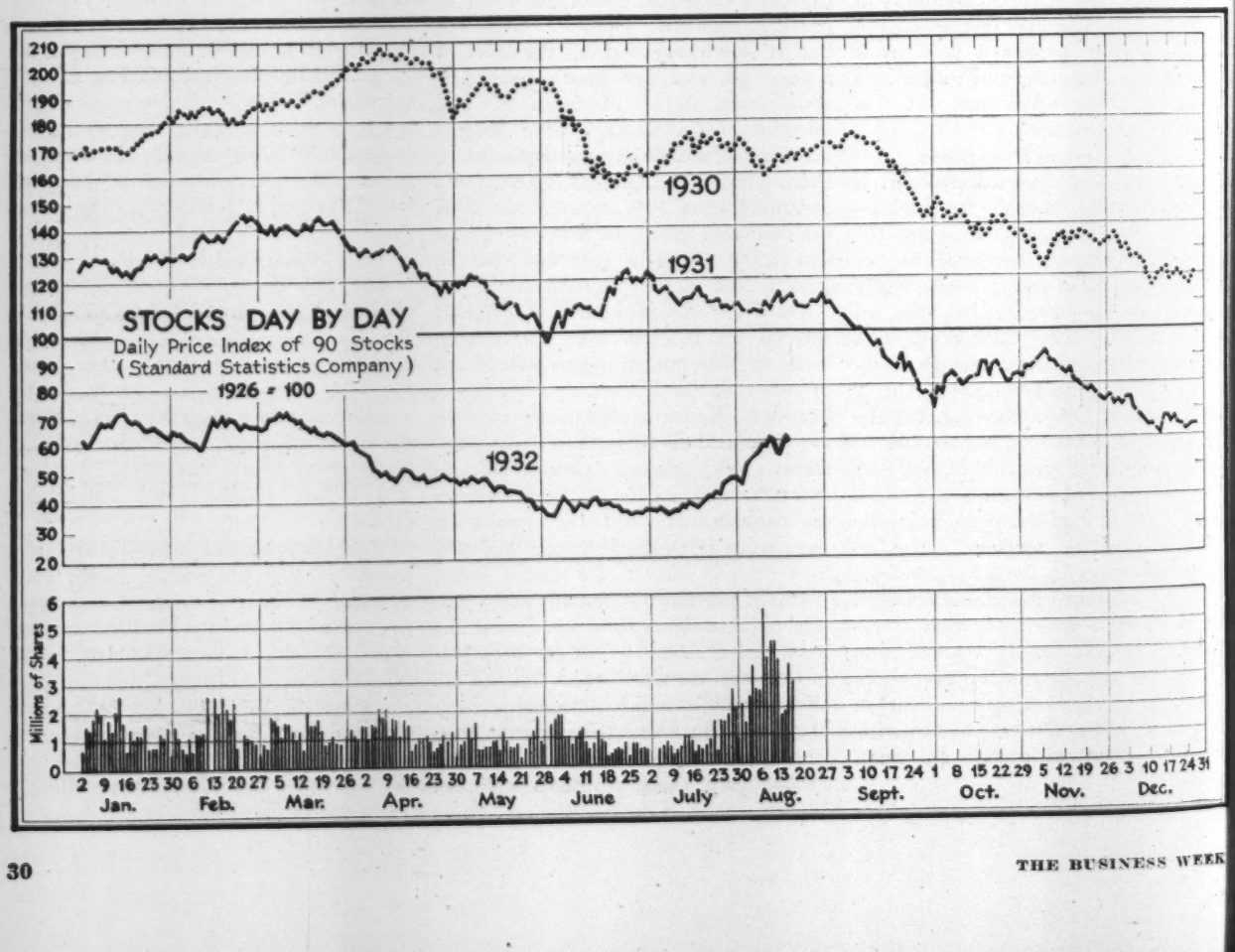
More important are the indications that the member banks both outside and in New York have been able to take advantage of rising bond prices to reduce their investments in other than government securities, probably by liquidating their weaker holdings, thus further strengthening their position. Moreover the rise in stock and bond prices has strengthened bank assets.

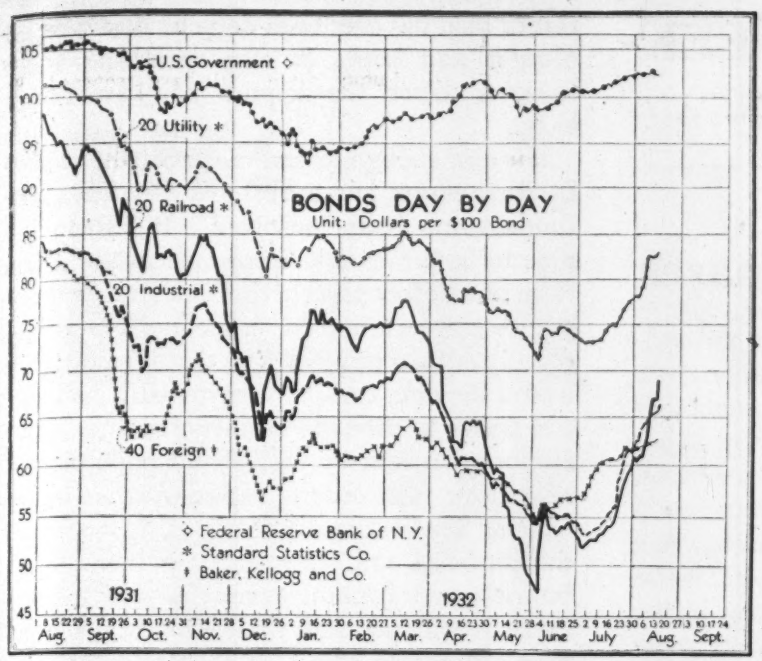
There is so far little sign of credit expansion, but the decline in loans, investments and deposits has been checked. Commercial loans are still being reduced, and outside banks are still liquidating security loans, but among the New York City member banks security loans increased by $42 millions during the two weeks ended Aug. 10.

Bank suspensions have been reduced to a "normal" level; reopenings and organization of new banks to replace liquidating institutions in many interior cities are increasing. According to the *American Banker* 150 closed banks have been replaced so far this year by new units, while 201 have reopened. Return of confidence among depositors has made it possible for bankers throughout the Middle West to protect themselves against runs by securing agreements to limit withdrawals for one to three years.

The Attorney-General's decision that the bond-backed national bank notes issued under the Borah rider to the Home Loan Bank Act must be retired at the end of three years puts a crimp in the possibility of large currency expansion under the provision, until Congress decides whether to extend the privilege.

The money market has not been noticeably affected by any increased demand for funds for speculative purposes. The New York Reserve Bank has tried to favor the movement to expand use of trade acceptances by making, for the first time, a discriminatory rediscount rate of 2% on this type of paper where it has a member bank endorsement, as compared with the regular rediscount rate of 2½%; but the steady decline in rediscounts indicates that this has so far furnished little inducement to use of Reserve credit for this purpose.




BONDS DAY BY DAY
Unit: Dollars per $100 Bond
U.S. Government ✧
20 Utility *
20 Railroad *
20 Industrial *
40 Foreign †
✧ Federal Reserve Bank of N.Y.
* Standard Statistics Co.
† Baker, Kellogg and Co.
1931
1932
Aug. Sept. Oct. Nov. Dec. Jan. Feb. Mar. Apr. May June July Aug. Sept.

Stocks Are Ready to Take Their Cue From Business

THE persistent strength of the upswing in stock prices during the past two weeks has surprised even the optimists in the Street and disappointed the stubborn bears. The expected technical setback last Friday, though it retraced about a fifth of the gain from the lows, was smaller than the preceding rise required. But the upward surge that succeeded it was not sufficient to reestablish the bull trend decisively, and the market settled into a nervous struggle to determine its direction.

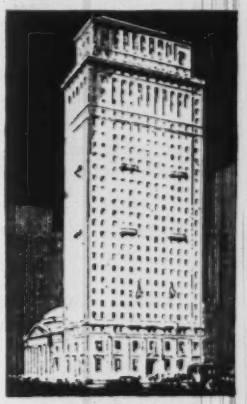
The outcome undoubtedly depends upon the promptness with which definite indications of actual improvement in business may appear, as they should soon if any seasonal expansion is to be forthcoming. The market so far has done little more than offset the extreme deflation influences of the currency crisis this spring and probably has not yet discounted much of the fall pick-up. The main factors so far have been the cessation of institutional liquidation, the inflow of foreign speculative funds and local professional stimulation. The full force of renewed public participation is still to be seen. Chiefly upon this factor depends the expansion of bank credit through security market channels, for the funds forthcoming to support the movement so far have been furnished by private sources, principally broker capital. The fact that brokerage resources can profitably be employed for this purpose is reflected in the rise of price of Stock Exchange seats by over 120% from the low.

Those New Issues Should Be Just Around the Corner

THE steady uptrend of bond prices continues to be the most important feature of the improvement in the securities markets. Although the interest in bonds is perhaps still as purely speculative as in stocks, the persistency with which prices have pursued their upward course regardless of setbacks in stocks is especially impressive. As in the case of stocks, unfavorable news affecting particular issues has uniformly been disregarded, as it usually is when the market is bull-minded. The sharp slump in Treasury issues affected by the Attorney-General's ruling regarding retirement of national bank notes backed by them was the outstanding exception.

Aside from the improvement in bank portfolios resulting from the recovery in bond prices the most important aspect of this recovery remains in the question as to the extent to which it may stimulate revival of new issues. So far only the Insull operating company refunding issues to pay off bank loans, completed this week by the Public Service of Northern Illinois issue, and a few state and municipals have been forthcoming, but they have been very successful, and some new capital utility flotations for plant extensions are in contemplation.

Advantages



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330 West 42d Street
New York City

THE BUSINESS WEEK

The Journal of Business News and Interpretation

August 24, 1932

To Doubting Thomases

THERE is something at once amusing and saddening in the embarrassment and annoyance which the recent rise in security and commodity markets and reversal of business sentiment has brought to some of our more bilious scribes, who have been insisting that no recovery is possible or proper until the deflation of everything is quite completed and the castor-oil bottle drained to the last drop. To the man in the street, and especially in the Street, the cocksure conceit of the academic mind and its somewhat naïve indifference to the obvious influence of human instincts in economic affairs must be amusing enough. At the same time it is saddening that there should be at this advanced stage of social development such a solid vested interest in human misery and despair that every effort and every hope of improvement must be met with moralistic condemnation or snooty skepticism by these crabbed economic oracles.

It is surely convincing testimony to the innocence or openmindedness of American business that it supports these wet-blankets so generously and reads the dour forebodings of these grumbling grouches with such great respect. The American business man is indeed as much a glutton for gloom as he is an enthusiast for optimism. This is part of the paradox of his nature, as this depression has repeatedly demonstrated.

We do not know, nor does anybody else, whether the Administration's efforts will finally be successful in pulling us out of this depression. If they are not, will anything constructive have been accomplished for anybody by insisting at this time that they cannot or should not succeed? Even though it may be less profitable in the professional speculative sense, it seems to us somehow a bit nobler at this stage of our difficulties to be a mistaken bull than an infallible bear. Nothing either for the glory of God or the comfort of man has ever been done by douching the courage and hopes of men with cold water, however correct the skeptics may have proven to be.

It is easy enough to find fault with the Administration efforts, and to feel that they leave some fundamental issues unsolved. But there is a time to be ferociously fundamental and a time to be practicably superficial. The President's acceptance speech and his subsequent exposition of his program make it clear that it embodies at least a definite, consistent, systematic, and positive policy to promote business recovery, which is more than can be said of the philosophy of his critics. The orderly nature of this program has not been realized until recently because of the confused and fearful state of mind of the business and banking community. Its significance is still not fully understood by business men. By reason of repeated disappointments at unrealized prophecies of impending improvement they remain skeptical about the recent rise in security and commodity prices. They do not sufficiently appreciate the fact that, partly as a result of the successive steps in the Administration program and partly because of other factors, there have taken place in the financial situation fundamental changes which, for the first time in two years, make business improvement seem at least possible and favor the success of the Administration efforts.

The persistent skepticism and inertia of business attitude remain the most important obstacles to such success, for the very essence of the Administration program is its reliance upon private enterprise, and from this point on it must depend principally upon the support of business opinion and the resurgence of business initiative and enthusiasm. We may not be convinced, but we do ourselves and the public the best service by giving ourselves the benefit of the doubt.

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